Austria	Sch26	Iran	[illegible]	Pakistan	[illegible]	Peru	[illegible]
Bahrain	Din0.700	Israel	[illegible]	Philippines	[illegible]		
Belgium	[illegible]	Italy	[illegible]	Poland	[illegible]		
Cyprus	[illegible]	Jordan	[illegible]	Portugal	[illegible]		
Denmark	[illegible]	Korea	[illegible]	Qatar	[illegible]		
Egypt	[illegible]	Kuwait	[illegible]	S.Arabia	[illegible]		
Finland	[illegible]	Lebanon	[illegible]	Singapore	[illegible]		
France	FFr7.00	Lux	LFr60	Spain	Ptas165		
Germany	DM2.80	Malaysia	M$4.25	Sweden	SKr12		
Greece	Dr180	Morocco	MDh8.00	Switz	SFr2.30		
Hungary	Ft107	Neth	Fl 2.25	Thailand	Bt50		
Iceland	IKr165	Nigeria	Naira12	Tunisia	Din0.800		
India	Rs15	Norway	NKr12.00	Turkey	L2000		
Indonesia	Rp3160	Oman	OR1	UAE	Dh7.00		

EUROPE'S BUSINESS NEWSPAPER

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D 8523A

HOLLYWOOD

Japanese money comes to Tinsel Town

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World News

White House split over comptroller's appointment

A White House row has developed over the re-appointment of Robert Clarke as the comptroller of the currency, who is in charge of the regulators of federally chartered banks. Mr John Sununu, White House chief of staff, opposes the reappointment, arguing that the comptroller's regulators have been too assiduous. But regulators defended close scrutiny. Page 16

Gummer blames US

British Agriculture Minister John Gummer accused the US of precipitating the collapse of last week's talks on a new world trade deal. He said they had "pulled the plug on the thing on Friday". Page 16

Aids protest

More than 500 Aids demonstrators sat down in the middle of one of New York's busiest intersections, disrupting traffic at the height of the Christmas buying season.

Sentence stands

Iran declared the death sentence against author Salman Rushdie irreversible. Islamic culture minister Mohammad Khatami said the late Ayatollah Kohmeini's order could not be lifted.

Indian casualties

More than 100 people have been killed over the past three days in clashes between Hindus and Moslems in Hyderabad, capital of the south Indian state of Andhra Pradesh, and at Aligarh town in Uttar Pradesh state in the north. Page 2

PM reinstated

Thailand's prime minister Mr Chatichai Choonhavan, who resigned on Saturday in an effort to end disputes with the country's generals, has been reappointed. Page 2

Levitt worries

The collapse of Levitt Group, one of the largest private financial services companies in the UK, has left uncertain the status of the funds of its 18,000 clients. Page 16

Election boycott

Ethnic Albanians in the Yugoslav province of Kosovo boycotted the first multi-party elections in more than 50 years in Serbia, the largest republic. Page 16

Currency doubts

Scepticism over the practical benefits of a single European currency and the speed with which it could be introduced has been voiced in an informal FT poll of senior executives in 20 of Europe's largest industrial companies. Page 4

Industry strife

THE two sides of Italy's engineering industry appear to be squaring up for their most serious confrontation in nearly a decade, following the collapse of pay talks covering 1.5m workers Page 4

Columbian violence

As Colombians turned out to elect an assembly to reform the constitution, security forces reported a massacre of six people by leftist guerrillas and skirmishes with rebel groups seeking to disrupt the poll. Page 3

Military reform

President Carlos Menem has announced a wide-ranging reform of Argentina's armed forces, diluting the concentration of military power in Buenos Aires. Page 3

Snow chaos

Heavy snow and icy weather gripped many parts of western Europe causing havoc throughout Britain, parts of France, Spain and Switzerland.

Business Summary

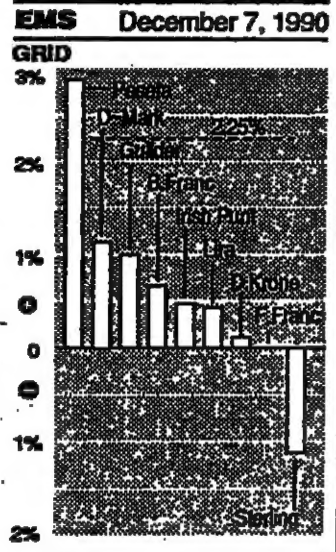
ABF agrees to buy British Sugar from Berisford

Associated British Foods, UK's largest milling and baking group, has agreed to buy British Sugar from Berisford International, Europe's third-largest sugar producer, ending a four-year battle between some of Europe's biggest food barons. Page 17

CITICORP, largest US commercial bank in terms of assets, is planning to cut about 4,000 jobs from its corporate lending business in the US, Europe and Japan. Page 17

EUROPEAN monetary system: The French franc slipped down the ERM league last week, but there was little if any sign of intervention by the Bank of France. Interest rate factors kept the D-Mark firm, moving closer to the top placed Spanish peseta, amid speculation that the Bundesbank may again tighten its monetary stance. The Bank of England signalled no early cut in UK bank base rates on Friday as sterling remained at the bottom of the system.

EMS December 7, 1990



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the EMS narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. Sterling and the Spanish peseta operate with 6 per cent fluctuation bands. Currencies, Page 27

SAATCHI & Saatchi, UK advertising group, says the international advertising industry faces a gruelling year in 1991 as recession continues in the US and other markets slow down. Page 16

BASLE AGREEMENT, accord on bank capital, will not be relaxed despite mounting pressures on the world banking system, says the chairman of the Basle committee of international banking supervisors, Mr Huib Muller. Page 17

IMI, Midlands-based engineering group, is drawing up plans for further international expansion in the US and the Far East. Page 18

GOODMAN International, Europe's biggest beef processor and exporter, enters what appears to be the final stages of a saga as banks owed more than I£500m ($882m) meet to decide on the viability of a rescue plan. Page 18

US BANKS are likely to cut their prime rates from 7 per cent to 6½ per cent this week. Page 20

UK-LISTED companies will show lower earnings next year say institutional fund managers who have already cut their expectations of the performance of UK companies in the past few weeks. Page 17

GILTS: Speculation about an interest-rate cut has driven up the gilt-edged securities market for the third week running. Page 20

Volkswagen beats Renault and Volvo for Skoda stake

By Kevin Done, Motor Industry Correspondent, in London

VOLKSWAGEN of Germany, Europe's leading car maker, has won the fierce competition against Renault of France and Volvo of Sweden to acquire a substantial stake in Skoda, the Czechoslovak state-owned car maker.

Mr Petr Pithart, premier of the Czech regional government, said last night that the decision had been taken at a special session of the Czech government yesterday.

VW had been recommended by the government's economic council, he said, because the German car maker had offered better financial conditions than Renault and a more comprehensive social package.

It is understood that VW has offered a package worth up to DM8bn ($5.2bn). It is expected initially to take a minority stake of 25-33 per cent, but this is likely to be increased later into a majority stake.

Skoda, which produced 183,000 cars last year, has been one of the main targets for western car makers seeking an entry into eastern Europe.

Mr Pithart said the decision in favour of VW was conditional on the German car maker accepting the conditions proposed by the government.

"The government is preparing the conditions of the contract with the German car firm. But we must insist on the fact that the decision is conditional on there being agreement on all the basic terms of the contract proposed by the government," he said.

The government of the Czech Republic is the legal owner of Skoda. No further details of the decision were given last night.

The competition between rival western car makers to become the partner of Skoda had been running for several months.

Originally many of the leading car producers from western Europe and the US expressed interest in the deal, but VW and the recently-formed Renault/Volvo alliance finally emerged as the front-runners.

In their bid, Renault and Volvo sought a 40 per cent stake in Skoda and put forward an investment plan totalling FFr13bn ($2.57bn) to modernise and expand Skoda's operations in the 1990s.

Mr Zdenek Patocka, Skoda deputy general manager who has been one of the leaders of the joint venture negotiations, said earlier this year that Skoda would prefer to keep majority control of any joint venture. It was keen to maintain the Skoda marque, but he said that: "It could be possible for the state to give up majority control."

Of Skoda's output last year of 183,000 cars, some 50,000 were exported to western markets headed by the UK with 13,600.

About 15,000 were exported to eastern European markets.

Volkswagen last night welcomed the announcement from the Czech government and said it understood that it was taking on a big responsibility.

It said that it would model its partnership with Skoda on its earlier takeover in the second half of the 1980s of SEAT, the former chronically loss-making Spanish state-owned car maker.

VW is currently engaged in a 10-year Pta670bn ($5.7bn) investment programme at SEAT up to the late 1990s in an ambitious capacity expansion and restructuring programme including the building of a 1,500 cars a day assembly plant. It has maintained the independence of the SEAT marque.

VW said that geographically the partnership with Skoda offered perfect conditions for integrating the Czech car maker into the group's international production network.

VW has also recently begun work on a planned DM5bn investment in east Germany, including the building of a 250,000-a year integrated car plant at Mosel, near Zwickau, site of the old East German Trabant plant, and the modernisation of an engine plant at Chemnitz. VW also has a small joint venture plant in Yugoslavia.

The other western car makers which have led the surge into eastern Europe are General Motors of the US and Fiat of Italy.

Lech Walesa: seeking a strong mandate to the Polish presidency to see his country through hard times ahead

Walesa heads for victory in Polish presidential poll

By Christopher Bobinski in Warsaw

EARLY indications suggested Mr Lech Walesa would win the Polish presidency but be denied a resounding mandate because of a low turnout in yesterday's poll.

Voting in the second stage of the country's bitterly contested first free democratic election since the 1930s was expected to fall below 60 per cent, even lower than the first round of November 25.

Mr Walesa, the Solidarity leader, was seeking a turnout of 80 per cent to give him a strong mandate to lead the country during the hard times it faces.

None the less, the final exit poll before the official results last night gave him 77 per cent of those who did vote, with 23 per cent for his rival Mr Stanislaw Tyminski, the controversial Polish-Canadian businessman.

During the first round, none of the six candidates won the required 50 per cent. Mr Tyminski then astonished the country by forging ahead of Mr Tadeusz Mazowiecki, the prime minister, thus becoming Mr Walesa's main challenger.

Yesterday Mr Walesa, accompanied by his wife Danuta and Slawomir, one of their sons, voted in Gdansk, the birthplace of Solidarity. He said he had put his cross against the name of "the better candidate."

In Pecice, a village a few kilometres from Warsaw, Mr Tyminski and Graciela, his Peruvian-born wife, voted without making any comment and then drove to lunch at his mother's house nearby.

In the last two weeks Mr Walesa appeared to gather some grudging support from Mr Mazowiecki's backers, who are concerned that a victory by Mr Tyminski would mean a communist "counter-revolution," of which Mr Walesa has rhetorically warned in recent days.

Mr Tyminski, who has promised low taxes and the maintenance of current social welfare levels, stepped up his attacks on the Solidarity government's economic policies in the run-up to yesterday's vote. He also attempted to destroy Mr Walesa's reputation, saying that he had compromising materials on the Solidarity leader. No evidence was produced.

Mr Walesa now says that Mr Tyminski should not be allowed to leave the country until he has answered the unsubstantiated charges. Continued on Page 16

Ethnic Albanians in the Yugoslav province of Kosovo yesterday boycotted the first multi-party elections in more than 50 years in Serbia, the largest republic. They were protesting at Serbia's control of their province. Page 16

Hopes rise for the Gulf hostages as Baghdad allows airlift to begin

By Peter Riddell in Washington and Mark Nicholson in London

HOPES THAT hostages freed by Iraq would be home by Christmas rose yesterday as more than 500 westerners left Baghdad aboard the first flights in a planned airlift.

However, as the evacuation began, the US issued further warnings to Iraq to withdraw completely from Kuwait or face military action.

In face of the welcome for the release of the hostages and widespread speculation about possible deals between Washington and Baghdad, senior members of the Bush administration sought to keep the focus on the basic aims of the United Nations Security Council resolution.

This resolution requires Iraq's complete withdrawal from Kuwait by January 15.

The task of ferrying out almost 3,000 western and Japanese hostages began last night as an Iraqi Airways jet, chartered by the Italian government, left Baghdad for Rome carrying 219 passengers, 176 of them Italians.

A US-chartered Boeing 747 later departed for Frankfurt carrying 330 passengers, mostly US nationals.

Iraq is refusing to allow foreign airlines to land in Baghdad and has insisted that the foreigners leave on Iraqi Airways aircraft. Iraqi authorities said last night they had enough aircraft to complete the evacuation by Christmas.

The British foreign office said that 72 Britons aboard the US flight to Frankfurt would be transferred to the first available flights to London. No arrangements for flying home 11 Britons on the Italian flight had been announced last night.

The first of two British-chartered aircraft is due to leave Baghdad carrying up to 440 Britons this afternoon, while a second jet has been chartered to leave tomorrow

British and US officials said that the Iraqi authorities were swiftly processing visas for the hostages, most of whom have assembled in Baghdad. All 1,200 Britons and 750 US citizens held in Iraq and Kuwait could be home by the end of the week, the officials said.

Mr James Baker, the US secretary of state, denied that any deals were being contemplated over Kuwait and warned the Iraqi government against trying to delay his proposed visit to Baghdad until January 12 – just before the UN deadline.

He said the US had proposed a date between December 20 and January 3 and going later than that would show that President Saddam Hussein was not serious and wanted to delay implementing the UN resolution. Mr Baker stressed that no solution or talks would be acceptable which would appear to reward aggression. For instance, the US is taking a strong line in continuing negotiations among members of the Security Council about the wording of a resolution referring to a possible Middle East peace conference – a move long sought by Iraq which would link the Palestinian question to issues to be discussed.

He said the US believed an international conference, "properly structured at an appropriate time, might be useful, but today we would not like to see that in a UN resolution precisely because there should be no linkage."

Mr Yitzhak Shamir, the Israeli Prime Minister, who is due to see President Bush in Washington tomorrow said that such a conference was a "non-starter" and ruled out Israeli participation.

Mr Baker said the US was "very appreciative" of Israel's low-profile policy throughout the crisis.

A peace conference embracing all Middle East issues has been called for by King Hussein of Jordan. It would be convened simultaneously with an Iraqi withdrawal from Kuwait. The king said any settlement of the Gulf crisis should guarantee Kuwait's sovereignty, but also contain elements to satisfy Iraq's economic and security concerns. There was no indication that his proposal had won Iraq's endorsement. Page 3

New evidence of corruption in Soviet food distribution system

By Quentin Peel in Moscow and Nancy Dunne in Washington

NEW EVIDENCE has emerged of chronic corruption, congestion and distribution problems in the Soviet food supply system, as the international community contemplates further food aid and loans.

The Bush administration is expected to accede this week to pleas by US farm and industry lobbyists and issue a waiver of legislation which forbids trade credits to the Soviet Union. Such a move could lead to the approval of more than $1bn in US government credit guarantees to underwrite the sale of grain and other commodities.

In Brussels, European Community finance ministers meeting today are due to draft an assistance package worth more than Ecu1bn ($1.36bn) which will be put to the EC summit in Rome on December 14-15. But leading Soviet officials and commentators warned that reports of looming famine were exaggerated and likely to be counter-productive, attracting food supplies from the West with which the overburdened distribution system cannot cope.

At the same time the KGB, the Soviet security service, identified port congestion, rail chaos, and theft and corruption in the state trading system as big factors behind the lack of food in state shops.

It singled out Leningrad, where ships loaded with meat, flour, and sugar were held up, and the Far Eastern ports (such as Nakhodka and Vladivostok) as the worst affected.

Radical and conservative politicians have started blaming each other for the confusion. Radicals who now control city councils like those in Moscow and Leningrad maintain they are subject to a deliberate blockade. Supporters of the establishment maintain that it is the inefficiency of the radical councils which is causing the chaos.

In reality, much of the problem appears to stem from the collapse of Soviet transport infrastructure and the beginning of rampant inflation outside the official distribution system.

A series of surveys by Soviet newspapers, including Pravda, found that large stocks of food, including meat, butter, tea and fruit, were blocked in Moscow's railway goods yards.

Pravda, for example, said 101 wagons loaded with meat, mostly imported, had been abandoned in a siding at the Oktyabrskaya goods yard since November 25, addressed for delivery to a meat-packing plant in the city.

"One of the reasons given for freight congestion is a shortage of storage facilities," Pravda added. "All warehouses of trading establishments are packed to capacity. On the other hand, shop shelves are empty."

Mr Eduard Schevarnadze, the Soviet foreign minister, arrived in the US yesterday for a visit which could coincide with a waiver of the Jackson-Vanik Amendment, which links favourable trade treatment and financing with emigration policy.

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THE MONDAY INTERVIEW

Dr Jonathan Sacks (left), who will soon be Britain's Chief Rabbi, says the world stands at the head of a moral and cultural shift so profound that future generations will look back upon these closing years of the millennium with awe. Page 32

FT SURVEYS THIS WEEK

SAUDI ARABIA

"A kingdom…difficult of access, where the foreigner will have no other aim, with his task fulfilled, but to get out." *— Ibn Saudi, founder of Saudi Arabia.*

Casualties rise in Indian clashes

By K.K. Sharma in New Delhi

MORE than 100 people have been killed over the past three days in clashes between Hindus and Moslems in Hyderabad, capital of the south Indian state of Andhra Pradesh, and at Aligarh town in Uttar Pradesh state in the north.

The violence came soon after Hindu activists last week began the second phase of their attempt to build a temple to the god Ram at Ayodhya in Uttar Pradesh, on the site of an ancient mosque.

Work done so far has been only symbolic – with Hindus under instructions from the Vishwa Hindu Parishad, the organisation masterminding the plans, merely to court arrest.

Police said that since last Thursday more than 4,000 people had been arrested around the site of the mosque.

But tensions have increased in areas where there is a substantial Moslem population. Hyderabad, where parts of the state capital have big Moslem sectors, has been particularly badly hit.

Rioting has taken place despite a curfew in the affected areas and police have fired on crowds several times. Despite a show of strength by the army, which marched through the riot-hit areas, more than 70 people had been killed by last night.

Similar violence has also rocked Aligarh, home of a Moslem university. More than 30 people have died in Hindu-Moslem clashes in the past three days.

The central government is not intervening to check the violence, as keeping order is the responsibility of the state governments under the Indian constitution, but a close watch is being kept following reports of tension in other towns.

Similar violence in many towns in Uttar Pradesh and other states took place during the first phase of the attempt to build the temple at Ayodhya last month.

More than 200 people were killed then, and scores of towns brought under curfew.

Pressure mounts for Ershad to be put on trial

By David Housego in Dhaka

SENIOR MILITARY commanders loyal to former Bangladeshi President Hossain Mohammad Ershad were yesterday removed from their posts as pressure mounted for Gen Ershad to be put on trial.

The Bangladesh National Party (BNP), a main opposition alliance, called for Gen Ershad and his wife Roushan to be placed under detention and for their wealth to be confiscated. They also asked for the appointment of a judicial inquiry under a high court judge to investigate charges of corruption and abuse of power against the former president.

In what could be the start of ugly demonstrations, students gathered yesterday outside the military compound in Dhaka where Gen Ershad is under "protective custody" and declared: "We want Ershad's head." Jubilant demonstrations by students on Saturday also called for him to be tried and hanged. Gen Ershad, who is unable to receive visitors, said in a brief telephone interview with the BBC that he was still planning to contest the parliamentary elections.

He said that if he won a seat, "I will try my luck in the presidential elections" due to be held before June.

The change at the top of the military hierarchy came as commanders gathered in Dhaka to try to resolve the split in the armed forces that has emerged over the treatment of the former president. Among generals loyal to Gen Ershad who have been removed were Gen Ashraf, director general of national security and intelligence, and Maj-Gen Nasir, director general of forces intelligence.

Reflecting fears among diplomats in Dhaka that disgruntled army units might still attempt a coup, the US embassy last night congratulated the army on its "positive and responsible" role in supporting democracy, and expressed confidence that it would continue to act in the same way. The statement came after Mr William Milam, the US ambassador, called on Gen Nooruddin Khan, the army chief of staff, who talked Gen Ershad into resigning under pressure from younger officers.

The split in the armed forces emerged on Friday as troops loyal to Gen Ershad attempted a display of force in the Dhaka cantonment where he is being held.

Mr Chatichai, right, after his reappointment, with parliamentary president Van Chansue yesterday

Thai premier is reinstated

THAILAND'S prime minister, Mr Chatichai Choonhavan, who resigned on Saturday in a last-ditch effort to end disputes with the country's generals, was reappointed yesterday, Reuter reports from Bangkok.

He announced his reinstatement to reporters waiting at his residence after the president of the parliament brought him the royal command from King Bhumibol Adulyadej.

Mr Chatichai immediately pledged a more honest government. "My immediate policy for the second Chatichai administration is honesty and more competence," he said.

The reappointment was widely expected, and attention now focuses on how Mr Chatichai will forge a new coalition to rule Thailand.

He said it would take a few days to form a new government because he was still talking to other parties. The 68-year-old former general quit after a long-running dispute with the powerful military, who accused his government of tolerating corruption and demanded the removal of several cabinet ministers.

His Chart Thai party holds 96 seats in the 357-seat parliament and has ruled for two years through a seven-party coalition.

Mr Chatichai said he hoped the new government would halt the damage to the economy caused by months of political uncertainty, and the new administration would satisfy the military.

Mr Chalerm Yoobamrung, the deputy education minister, who had angered the army by accusing it of corruption and meddling too much in politics, would not be in the new government, Mr Chatichai added.

The generals' dispute with Mr Chatichai reached a crisis point after they claimed the premier had reneged on a deal to sack the minister.

NEWS IN BRIEF

Burmese rulers arrest 49 opposition leaders

BURMESE authorities have arrested 49 leaders of the National League for Democracy (NLD), including dozens of parliamentary deputies, for alleged involvement in a conspiracy to seize power by unilaterally forming a rival, interim government, writes Chit Tun in Rangoon.

The NLD won a general election in May but the State Law and Order Restoration Council (Slorc) has not allowed it to take power.

According to Major-General Khin Nyunt, Slorc first secretary, the conspiracy was conceived at two secret meetings of 40 NLD leaders in September and October. He said the NLD planned to convene the new parliament, bypassing the law which gives this power to the president.

Low turnout in Nigerian poll

Nigeria's first party political elections in seven years passed off peacefully on Saturday, but initial reports indicated a low voter turnout, especially in the south of the country, Reuter reports from Lagos.

The elections were contested by two government-created parties – the left-of-centre Social Democratic party (SDP) and the conservative National Republican Convention (NRC). Estimated turnout was often 10 per cent or less of those registered to vote. The government is using a controversial open ballot system, in which electors line up in front of their candidates' posters.

Multi-party system for Angola

The Popular Movement for the Liberation of Angola (MPLA), the country's ruling party, endorsed proposals at the weekend to revise its constitution in two phases to introduce a multi-party system, Reuter reports from Luanda.

The first phase, ending in March 1991, would introduce laws on the formation of political parties, associations, the right of assembly and a press law. The MPLA's army would become a national army.

A second congress, which would probably meet before June next year, would take a final decision on the MPLA's future ideological line.

South Africa sets out to lighten the load of its townships

Electricity has at last arrived in Orange Farm, a squatter settlement in the Transvaal, reports **Patti Waldmeir**

ELECTRICITY and First World technology have come to Orange Farm, a dismal squatter settlement of corrugated iron and dust on the veld outside Johannesburg, and Mr Frans Majolo is clearly delighted.

"Everything that works with electricity, I'm going to buy it," says Mr Majolo, 58, proudly displaying his hi-fi radio, new two-ring hot plate and a bare bulb hanging from the ceiling of his two-room shack.

He brandishes the pre-paid card which switches on the power: Orange Farm's households use electricity meters modelled on the shilling-eating monstrosities of Britain's past, updated for the cashless society. The meters accept cards charged to the value of between R5 and R500 (£102) and indicate when money is running out.

On the sideboard of Mr Majolo's combined sitting room, dining room and bedroom stand the discarded primus stove and paraffin lamps which he once used. He can abandon such rustic methods and bring in the mod cons of township life: a heater for the highveld winters, an electric fan for heavy summer days and a fridge to keep drinks cool and meat fresh.

Next door, at shack 2469 Orange Farm, Mrs Sarah Mngomezulu, 32, plans to run a small portable television off the three-plug "ready board" installed last week by Eskom, the South African electricity utility.

"It's very nice," she says simply, posing cheerfully beside the board and the pre-payment meter mounted next to it.

Electrifying Orange Farm, where even the flimsiest squatter shack seems to have bars on its windows, is a small step in Eskom's mission to bring power to South Africa's burgeoning urban townships. "We've got to provide even a cardboard box with a light bulb and a plug point," says Mr Ian McRae, the group's chief executive.

Eskom says that only 13m of the country's 33m people have electricity; electrifying every household in urban and large rural settlements would cost up to R6bn between now and 2000, Mr McRae says.

At Orange Farm, where the first 38 households were being ceremonially switched on over the weekend, Eskom hopes to have electrified 900 houses by next February, at a capital cost of R1.5m.

Eskom officials and township residents alike point out that nothing improves the quality of life as much as electricity. Its convenience is obvious; and, at 16 cents a unit, Eskom believes the average Orange Farm resident will spend R32 a month on electricity, compared with Mr Majolo's average bill in excess of R80 a month for coal and paraffin.

The system of pre-paid cards has proved extremely popular.

Mr Majolo says he prefers it to receiving a bill at the end of the month. "When my money is finished on the machine, my light is off. When I've got money, my light is on again. Nobody is after me," he explains.

And the "ready board", with its three plugs and a frosted light, provides instant wiring for dwellings built of single corrugated iron sheets. With a few extension leads strung from the ceiling, an entire shack can be served from the three plugs. Even some mud huts in Zululand now get their electricity this way.

But in South Africa, where electricity is a sensitive political issue, the success of such schemes will depend on acceptance by township organisations allied to the African National Congress (ANC).

Many South African townships have boycotted electricity payments for years, as part of a civil disobedience campaign aimed at defeating apartheid. The system could still fall foul of the angry young men who increasingly control the country's townships.

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INTERNATIONAL NEWS

● THE MIDDLE EAST

US and Iraq in dispute over timing of talks

By Peter Riddell, US Editor, in Washington

THE US and Iraqi governments remain in dispute about when high-level direct contacts between them should occur, prompting charges from the Bush administration that Baghdad is not serious about the talks.

Mr James Baker, the US secretary of state, rejected an Iraqi proposal that he should visit Baghdad on January 12, three days before the expiry of the United Nations Security Council deadline for Iraq to withdraw from Kuwait or else face the possible use of force.

He said Washington had proposed that he go to Baghdad any day between December 20 and January 3 "in order that people understand that we're serious about this meeting and we think it's important that we leave no stone unturned in the search for peace".

In rejecting the later date of January 12 as "basically unacceptable", Mr Baker said the US "would not be a party to circumventing the January 15 deadline or playing games that back us right up to that deadline because Iraq is not going to be able to leave Kuwait in just a couple of days". He said that if Baghdad rejected any of the dates suggested by the US it would show that Iraq "is not serious or wants somehow to delay the Security Council resolution".

Baghdad has proposed that Mr Tariq Aziz, the Iraqi foreign minister, should visit Washington on December 17, but the Bush administration has refused to agree until there is a firm agreement on an acceptable date for Mr Baker to visit Iraq and that he will see President Saddam Hussein.

Mr Amir al-Anbari, the Iraqi ambassador to the UN, said the dispute was a "marginal issue" that he believed would be settled within the next few days. If the date of January was not suitable to the US, he said, "it should not be a problem to find a more suitable date". He said a date as early as January 3 might not be excluded.

Apart from the differences over dates, the two sides also disagree about the purpose of the talks. Baghdad wants an overall discussion of Middle East problems, including the Palestinian question, but Washington sees the main aim as stressing the need for Iraq fully to comply with the UN resolutions, and wants to avoid any linkage with the Arab/Israel dispute.

Hussein calls for peace conference on all Mideast issues

By Lamis Andoni in Amman

KING Hussein of Jordan yesterday called for a peace conference, embracing all Middle East issues, to be convened simultaneously with an Iraqi withdrawal from Kuwait, as several Arab states sought to foster negotiations between the Kuwaiti and Saudi Arabian governments and Iraq.

King Hussein said, during an address to army cadets in Amman, that any settlement of the Gulf crisis should guarantee Kuwait's sovereignty, but also contain elements to satisfy Iraq's economic and security concerns.

He said that any comprehensive settlement for the region should lead to the elimination of all weapons of mass destruction in the region – implicitly embracing Israeli arms as well as those of Iraq.

There was no indication from the king that his proposal had won the endorsement of Iraqi President Saddam Hussein, but his suggestion appears to provide a mechanism for ideas agreed upon last week during talks with the Iraqi leader.

However, the king's attempt to link a solution to the Gulf crisis with wider regional problems – particularly the Arab-Israeli conflict – is certain to prove unpalatable to the Bush administration, which has gone out of its way to deny any such linkage.

According to senior Arab officials, Mr Saddam promised at a meeting with King Hussein last Tuesday that he would be willing to compromise over Kuwait only if there was progress towards the settlement of the Palestinian problem.

Mr Saddam, at the same time, secured the support of his visitors in representing Arab demands for convening an international peace conference during the expected Iraqi-US meetings.

A draft United Nations resolution proposing such a conference, "at an appropriate time", was subject to continued discussion yesterday in New York.

US officials repeatedly stressed last week that they would neither support nor approve an early Middle East conference.

King Hussein, meanwhile, called yesterday for dialogue to heal the rift among Arab states resulting from Iraq's invasion of Kuwait.

Oman, Algiers and Morocco are spearheading an effort to bring anti-Iraqi states towards dialogue with Baghdad and are testing, in particular, whether talks can be arranged between Saudi Arabia, Kuwait and Iraq.

However, Arab officials said they doubted that any meeting could be arranged between Mr Saddam and King Fahd, the Saudi ruler, before the US-Iraqi meetings.

US marines in the Saudi Arabian desert after an exercise in interrupting enemy supply lines

Intifada enters fourth year

By Hugh Carnegy in Jerusalem

THE Palestinian *intifada*, or uprising, against Israel's 23-year occupation of the West Bank and Gaza Strip entered its fourth year yesterday with little prospect of a settlement and the two sides seemingly more bitterly divided than ever.

The combination of curfews imposed by the Israeli authorities and protest strikes ordered by the *intifada* leadership left most of the occupied lands in sullen silence. However, a 27-year-old man was shot dead by paramilitary police in Gaza while being arrested and sporadic protests were reported elsewhere.

Exact counts of the numbers killed since the *intifada* erupted vary, but the dead man, Mr Mohammed Mourdi al-Madani, was among more than 740 Palestinians killed by Israelis. They included his brother, shot dead by soldiers in February. Some 55 Jews have died and nearly 300 Palestinians have been murdered as collaborators by fellow Arabs.

Events over the past nine months offer little hope for the Palestinians that the fourth year of protest will bring progress towards their aim of independence. The advent of a right-wing Israeli government and the withdrawal by the US from talks with the Palestine Liberation Organisation dashed hopes for peace talks.

Instead there has been a marked rise in the number of violent attacks on Israelis, deepening Israeli fears and helping to harden Israeli opinion against concessions. Yesterday, Mr Yuval Ne'eman, a cabinet minister and leader of the far-right Tehiya party, threatened that Palestinians would be forced to leave the occupied territories if they reverted to use of arms in the *intifada*.

Fear of attacks and the pressure for employment from Soviet Jews flooding into the country have produced a move to reduce the numbers of Palestinians working in Israel, a vital source of income in the West Bank and Gaza.

The chief hope for Palestinians is that their cause will receive greater international attention after a resolution of the Gulf crisis – whatever the outcome.

Menem announces reform of military

By John Barham in Buenos Aires

PRESIDENT Carlos Menem has announced a wide-ranging reform of Argentina's armed forces. The reform will dilute the heavy concentration of military power in the capital, Buenos Aires, by moving units to the interior and to border regions.

The government also hopes that the five-year reorganisation will reduce the forces' political role. Military interventions since 1930 have reduced the average life of Argentine governments to less than two years. The plan is also intended to strengthen military discipline, shaken by four mutinies in three years.

Ironically, the reform was to have been announced last Monday, but had to be postponed when 300 troops staged the latest uprising. However, the reorganisation is not believed to have been a factor in the rebellion.

The 43,000-strong army will be regrouped in six regional divisions, backed up by a rapid deployment force and an armoured force. Many units and installations will be closed or sold to improve efficiency and reduce costs.

Mr Menem promised to channel all privatisation proceeds into army coffers to reward the army's loyalty in last week's rebellion.

The navy and air force will be similarly restructured. The navy's operations are to be concentrated in southern Argentina to improve fisheries control around the disputed Falkland Islands.

Critics, however, point out that the reforms are not likely to resolve fundamental problems, such as establishing a raison d'etre for Argentina's military now that conflict with its neighbours, Chile and Brazil, is over.

Canadian liberal set for victory

MR JEAN CHRETIEN, the Trudeau-era veteran chosen last June to succeed Mr John Turner as leader of the federal Liberal party, was widely expected to win the rural riding of Beausejour in a by-election in New Brunswick today, Robert Gibbens writes from Montreal .

Mr Chretien left active politics for four years while Mr Turner led the Liberals, and ran in the Beausejour election to obtain a seat in the Commons in Ottawa. Beausejour, whose voters are mostly francophone Canadians, Acadians, has been a Liberal stronghold for 50 years.

However the New Democratic Party ran a strong local candidate, and several fringe parties also fielded candidates. Liberal organisers expected a relatively small majority.

Mr Chretien has promised to launch a campaign for Canadian unity.

Colombians taking softer line on drugs while voting takes place for assembly

by Sarita Kendall in Bogota

COLOMBIANS voted yesterday to elect a 70-member constitutional assembly, as the country's mood swings away from indicting drug-traffickers to a search for peace at almost any price.

Conservative, Liberal and left-wing candidates are all eager to stop the extradition of nationals, to applaud negotiations with traffickers, and to discuss giving political status to the cocaine gangs. The government has promised "dignified and decorous quarters" for the 200 or more traffickers apparently prepared to give themselves up and serve reduced sentences.

However, the deal may be done before the constitutional assembly begins its five months' sitting on February 4. The decree guaranteeing no extradition for traffickers who surrender and confess has already been modified once, and President Cesar Gaviria is to announce further changes.

Eight journalists are still in the hands of the Medellin cartel, and selective kidnapping has proved a more effective weapon than the bombs of a year ago, which fuelled popular outrage against the traffickers. "The whole press is hostage - we can't write anything that would risk the lives of our friends," said a reporter on the Bogota daily, El Tiempo.

The heads of the two institutions with the greatest anti-drug successes to their credit – the national police and the security police – have just been removed from the main policy-making council on narcotics. At the same time, a secret police report says that cocaine production is rising.

Although President César Gaviria has worked harder than anyone to push through the constitutional assembly, his own Liberal party is in such disarray that opposition groups are expected to do well in the voting.

Security forces reported a massacre of six people by leftist guerrillas and skirmishes with rebel groups seeking to disrupt the poll, adds Reuter from Bogota.

The army said the bodies of five men and a woman had been found in Sabana de Torres, 250 km (160 miles) north of Bogota. It said the rebel National Liberation Army (ELN) had claimed responsibility.

Soldiers killed two ELN guerrillas after the rebels set up a roadblock near the oil refining centre of Barrancabermeja, stopped vehicles and took away passengers' identity cards to prevent them from voting, Defence Minister Oscar Botero said.

Colombian Revolutionary Armed Forces guerrillas wounded two soldiers in the south and ELN rebels killed a policeman and wounded two others in an attack on a village in the central region, security sources said.

Military sources say the FARC and ELN, Colombia's biggest guerrilla groups, planned to disrupt the elections, apparently because of their exclusion from the assembly. Gaviria offered the guerrillas a seat if they laid down their arms but peace talks broke down.

Despite the violence, officials said the country was generally calm and all polling stations had been able to open.

Turkish budget likely to meet fierce opposition

By John Murray Brown in Ankara

TODAY'S parliamentary debate on the Turkish budget will provide opposition parties with the first opportunity to challenge the government's economic policies since the start of the Gulf crisis four months ago.

Although the ruling Motherland party (ANAP) enjoys a comfortable 60 per cent majority in the assembly, the government is likely to have a rough ride amid growing union unrest, rising inflation and concern in some quarters over the increase in funds used to support the Religious Affairs Ministry.

The debate will be opened for the government by Mr Adnan Kahveci, finance and customs minister, with both opposition leaders – Mr Suleyman Demirel of the conservative True Path party, and Mr Erdal Inonu of the Social Democrats – due to reply.

The government is predicting the economy will grow by 5.7 per cent in the coming year, compared with about 9 per cent for 1990. But given the uncertain impact of the Gulf crisis, many economists believe that this is too optimistic.

After recent criticism from the International Monetary Fund, the Treasury was last week said to be revising its spending plans.

Turkey's 1990 budget envisages total spending of TL105,000bn (£18.9bn), with debt servicing and personnel costs accounting for more than 70 per cent.

Revenues are targeted at TL80,000bn, leaving a deficit of about TL20,000bn, or about 6 per cent of GDP.

Despite broad cuts in trade taxes overall, tax collection has been improved, with revenues up 73 per cent in the first 10 months of 1990, according to government figures.

However the published figures do not include subventions to state enterprises or the extra budgetary costs, which economists say are behind the level of the public sector borrowing.

According to the latest OECD report on the Turkish economy, the funds help fuel the country's sustained high inflation, now running at about 55 per cent.

The funds were originally set up to facilitate government spending in vital areas like housing and support for the poor, but they are now criticised by the opposition as an important tool of government patronage.

The dismal record of the government's privatisation policy is likely to be another topic discussed. Attempts to privatise state enterprises have met a slow response, despite encouragement from President Turgut Ozal.

Cable & Wireless undertakes Polish telecoms venture

By Anthony Robinson, East Europe Editor

CABLE AND Wireless announced its first foray into the east European telecommunications market last week with the signature of a memorandum of understanding with the Polish PTT Ministry to set up a modern digital telecommunications network for the city of Gdansk.

Business subscribers will be the first beneficiaries as C&W will make international digital services available to some several hundred businesses in Poland's major port within three months of receiving final approval for the project. Payphones and payfax will also be made available to the general public.

The network will connect 33,000 subscribers within three to four years and at least 450,000 business and residential customers within seven to 10 years involving an investment of over £200m ($384m). Financing arrangements have not yet been finalised.

C&W expects to be granted a 25 year licence to operate and manage the network in co-operation with regional and national operators, although in the first instance it will work with the PTT ministry.

Poland is currently involved in a large scale privatisation programme and the future shape of the industry will be determined by this.

Mr Gordon Owen, C&W managing director, stressed the long term commitment of the company to its Polish venture.

It is expected to be the precursor of similar deals in a region with poor telecommunications and an urgent need for better links, as trade and investment flows westward and privatisation raises the number and quality of domestic businesses.

A man representing Shchit (Shield) alliance for the protection of the rights of army servicemen shouts anti-Gorbachev slogans in a march on Gorky street yesterday to mark the anniversary of the death of Andrei Sakharov, the Soviet human rights campaigner, and International Human Rights day.

Italian engineering pay talks collapse

By John Wyles in Rome

THE TWO sides of Italy's engineering industry appear to be squaring up for their most serious confrontation in nearly a decade, following the collapse of pay talks covering 1.5m workers at the weekend.

Traditionally, national engineering deals set the pace for much of the Italian private sector, whose main representative, Confindustria, has been pressing the engineering employers to hold the line on working hours.

Trades unions have called for a 16-hour reduction in the working year, spread over three years.

During negotiations since April, the unions have called nearly 40 hours of strikes and three nationwide four-hour stoppages.

Following the collapse of negotiations the three national union confederations also claimed that an agreement made with Confindustria last summer to begin talks next June on a reform of pay bargaining had been nullified.

Mr Carlo Donat Cattin, minister of labour, stepped in in September to play a mediating role.

In the last fortnight, however, he has made no secret of his exasperation with the employers and of his belief that they should accept his compromise proposals.

These provide for a monthly L250,000 ($220) pay rise over three years, a lump sum payment of L840,000 and a 16-hour cut in working time.

The employers say his pay proposals alone – which they are prepared to accept – will lead to a 26 per cent rise in labour costs over four years, compared to 15-20 per cent among Italy's main competitors.

They say Italian industry has lost 7.7 per cent of competitiveness on labour costs against Germany since 1980 and the lira's entry into the narrow band of the exchange rate mechanism – the 2.25 per cent margin of fluctuation. This they say leaves them no room to concede labour cost increases higher than in other leading industrialised countries.

Operation Gladio fallout deepens around Cossiga

THE torment inflicted on Mr Francesco Cossiga, the Italian president, by Operation Gladio – the Nato-inspired guerrilla force to be activated following a hostile invasion – looks set to deepen this week, following indications that he has already considered temporarily stepping down, writes John Wyles.

This week Mr Cossiga is to testify to a parliamentary committee on his knowledge of and involvement in administering Gladio as a junior defence minister in the second half of the 1960s.

This will follow the publication today of revelations by Mr Antonio La Bruna, a former head of Italy's military police – the Carabinieri – that tape-recorded interviews made during investigations into a military coup planned for 1964 had been heavily doctored on political instructions. Mr La Bruna reportedly mentioned Mr Cossiga's name in evidence to the Venetian magistrate, Mr Felice Casson.

One line of inquiry being worked on by magistrates is that the Gladio underground network, apparently heavily populated by right-wingers, was to be put at the service of the attempted coup leaders.

The Italian press is now suggesting not only that Mr Cossiga may temporarily hand over his powers to the president of the Senate, Mr Giovanni Spadolini, but also that the Socialists may bring down the government of Mr Giulio Andreotti. After a cabinet meeting on Friday, Socialist ministers made it clear that they did not subscribe to a government statement that Gladio had been a constitutionally legitimate organisation.

Mr Andreotti insisted that this position be taken to head off a threat apparently made by President Cossiga on Friday morning to step aside.

Senior executives sceptical of single European currency

By Peter Marsh, Economics Staff

SCEPTICISM over the practical benefits of a single European currency and the speed with which it could be introduced has been voiced in an informal poll of senior executives in 20 of Europe's largest industrial companies.

The poll has been conducted by the Financial Times on the eve of an inter-governmental conference which begins this week in Rome to debate the timetable for European economic and monetary union (Emu).

Stage three of Emu is due, under the plans of some countries, to coincide with a single, common currency to reduce transaction costs across Europe and to aid the establishment of a single market. A new European central bank would control monetary policy.

Of the 20 companies contacted – from Germany, Britain, Switzerland, Denmark, Italy, France, Belgium and the Netherlands – 15 registered doubts about either the usefulness of the currency or the likelihood of its introduction within the foreseeable future.

Several executives said that, whatever they thought of the prospects for a single currency, the chances of its implementation had been improved by Mr John Major's succession as British prime minister.

Mr Gerhard Liener, finance director of Daimler-Benz, the German automotive, engineering and aerospace company, said he thought Mr Major would take a more positive view of a single currency.

Mr David Sainsbury, deputy chairman of J. Sainsbury, the British supermarket group, said discussions about Emu were likely to be "less emotive" with Mrs Margaret Thatcher out of office.

A number of senior company officials said they doubted whether the political and economic conditions for the introduction of a common currency, along with the establishment of the new central bank, could be satisfied within the next decade.

The lack of uniformity in the economic position of different European countries was a particular problem.

Mr Jan Roxendal, president of treasury operations at Asea Brown Boveri, the Swiss-based engineering group, said many politicians were displaying "wishful thinking" over the question of a single currency.

At Volkswagen, the German car group, Mr Rutbert Reisch, group treasurer, said the discussion was "largely academic". Mr Tony Lighterness, deputy finance director at RTZ, the British metals and mining group, said: "I doubt if we will see it [a single currency] introduced this century."

According to Mr Reto Domeniconi, vice-president in charge of finance at Nestlé, the Swiss foods company, the pace of discussion on a single currency would probably decline in the next few years, a result of the general economic slowdown affecting Europe.

Several executives could see the advantages of a single currency in terms of this leading to a more cohesive market-place.

That could stimulate demand, indirectly benefiting their companies.

But a number expressed doubts about how much advantage their companies would gain through a reduction in exchange risk on internal financial transactions. They were also sceptical about the degree to which a single currency would help their companies in trade.

Mr Bjarne Knudsen, treasurer at Novo Nordisk, the Danish drugs and enzymes company, said the extra gains through reduced currency risks would be marginal compared to those already achievable due to most European currencies belonging to the European exchange rate mechanism.

Mr Michel Delrue, director of financial services at Rhône-Poulenc, the French chemicals company, said: "For companies like us, the benefits [of a single European currency] have been overrated."

At British Airways, Ms Catherine Macfarlane, foreign currency manager, said: "We use 147 currencies to take into account all our worldwide operations.

"A single European currency would not make an awful lot of difference."

Executives at Philips, the Dutch electronics group, Ares-Serono, the Swiss pharmaceuticals company, Fiat, the Italian car company, and Solvay, the Belgian chemicals group, all voiced optimism about the progress related to the single European currency.

Those expressing negative or doubtful sentiments included officials at Veba, BASF and Metallgesellschaft, three large German companies in energy, chemicals and engineering respectively; Lego, the Danish toy group; SmithKline Beecham and Fisons, UK drugs companies; and the British head office of International Business Machines, the US computer company with extensive operations in Europe.

Six Spanish policemen die in blast

By Tom Burns in Madrid

A CAR bomb which killed six policemen and severely injured two in Catalonia's manufacturing centre of Sabadell at the weekend has cast the shadow of the Basque separatist organisation ETA over Spain's 1992 summer Olympic games.

Documents detailing that the Olympiad, due to be staged in nearby Barcelona, was considered a priority target by ETA were found in the possession of a leading ETA member arrested in south-west France three weeks ago. After Saturday's attack, Mr Jordi Pujol, chief executive of Catalonia's autonomous government, said: "ETA appears to have reconstituted a nucleus for terrorist action [in the Barcelona area]."

An ETA bomb squad was last active in Catalonia three years ago; its three-member unit was arrested in September 1987 and was charged with seven attacks, including an explosion in a city supermarket which killed 21 shoppers.

In Saturday's bombing, a stolen car packed with explosives was detonated alongside a minibus transporting policemen to security duties at Sabadell's football stadium. Extensive roadblocks and the circulation of photographs of two ETA suspects believed to be active in the area had apparently failed to uncover any leads 24 hours after the attack.

The main fear of security officials in both Madrid and Barcelona is that ETA has been able to establish itself in Catalonia thanks to its links with a Catalan group called Terra Lliure, which shares broad secessionist aims with the Basque organisation and also opposes the 1992 Olympics. Terra Lliure, which collaborated with ETA's Barcelona unit in 1987, has a low operational level but an allegedly extensive network of sympathisers.

The car bomb brought the number of ETA victims this year to 22.

French opposition party suffers a new setback with resignation of third MP

By William Dawkins in Paris

FRANCE'S largest conservative opposition party, the Gaullist RPR, was hit over the weekend by the third in a series of resignations.

Mr Jean-Michel Dubernard, an MP in the Rhône area, gave up his party membership and his parliamentary seat only days after two of the party's best-known figures did the same.

Mr Dubernard is a close supporter of Mr Michel Noir, the former foreign trade minister and present mayor of Lyons, France's second city, who was the first to resign. He was followed by Ms Michèle Barzach, former junior social affairs minister.

The resignations are a protest against weaknesses in the RPR leadership and against infighting evident in most of France's established political parties.

Mr Dubernard criticised the "deep and lasting crisis that has become established in the national establishment and in society".

Mr Jacques Chirac, RPR president, reacted calmly to the resignations, the most dramatic in a series of protests against his leadership style.

He said the RPR had known "occasional family quarrels", but that in the end "unity and solidarity would gain the upper hand."

Mr Noir has tried several times to mobilise a conservative reform movement, including supporters in the RPR and from the UDF centre-right party culminating in the launch earlier this year of the United Forces group, embracing young conservatives from the respectable right wing parties.

Gaullist Party officials met over the weekend to discuss the selection of fresh RPR candidates for the by-elections which must be held in the three constituencies within the next three months.

De Maizière denies Stasi link

By Andrew Fisher in Frankfurt

MR Lothar de Maizière, former East German prime minister who is in line to become justice minister in the newly elected German government, vigorously defended himself at the weekend against renewed allegations that he had worked for the Stasi, the east's hated state security service

Details of Mr de Maizière's alleged activities for the service were published in the latest edition of Der Spiegel, the weekly magazine. The allegations against him surfaced after Mr Joachim Gauck, the official in charge of Stasi files, told the Bonn government that a filing card had been found with the codename Czerny and an address allegedly identical with that of Mr de Maizière in east Berlin.

WORLD ECONOMIC INDICATORS

RETAIL PRICES (1985=100)

	Nov.'90	Oct.'90	Sept.'90	Nov.'89	% change over previous year
Japan	110.1	110.2	109.0	106.0	+3.9
W.Germany	108.0	108.2	107.5	104.9	+3.0
Belgium	112.7	113.1	112.4	108.4	+4.0
	Oct.'90	Sept.'90	Aug.'90	Oct.'89	
UK	137.5	136.7	135.4	124.2	+10.9
US	124.1	123.4	122.3	116.5	+6.3
France	118.2	117.6	117.0	113.8	+3.9
Netherlands	105.1	104.8	103.9	102.1	+2.9

Source: (except US) Eurostat

Couriers give stamp of disapproval to postal blueprint

Tim Dickson on a looming battle between Europe's government postal services and the private sector

A Brussels-based consumer group recently put Europe's post offices to the test – and found them wanting.

The group mailed almost 4,000 letters from the 12 European Community countries and Switzerland. It found that average cross-border delivery times ranged from 2.7 days for letters posted in Belgium to more than 5 days for letters sent from Italy.

A similar picture of inefficiency emerges from internal figures supplied by national post offices to the European Commission.

These show that fewer than 40 per cent of letters meet the post office association's target of delivery on the third day after mailing.

For many, notably the escalating number of express courier services which are pressing to provide a more efficient service, the conclusions are clear. Postal administrations are ill-equipped to deal with the growing business demands of a single European market, and their long-standing monopoly privileges must be abolished.

The stakes are particularly high for groups such as Federal Express, DHL and TNT, which have been spending heavily to set up pan-European distribution networks. They are desperate for higher volumes of business to earn a return on their investments; all three groups now lose money in Europe.

Over the last couple of years the express couriers have launched an energetic lobbying campaign to persuade the EC to bring forward radical proposals for reform.

Brussels has finally responded with a long-delayed draft green paper, presented to EC countries' postal experts last week and due for publication early next year. However, the Commission appears cautious about any sweeping change.

Its reluctance stems not just from the political power and size of the national post offices; they employ 1.25m people in the Community. It also arises from the conflict between competitive efficiency and social welfare obligations, a familiar dilemma posed by deregulation.

At stake, say post office supporters, is the continuation of a universal postal system guaranteeing regular deliveries to EC citizens in the remotest regions of the Community, at a standard price. Stripped of their monopoly rights in the more densely populated areas, for example, they could not afford to maintain services in remote regions.

Meanwhile the market place has become increasingly competitive.

Express courier groups are squaring up for a fight and are winning some heavyweight financial backing. Earlier this year Lufthansa, Japan Airlines and Nissho Iwai, a Japanese trading house, together acquired a majority interest in DHL.

Reliable estimates of the couriers' market share are hard to come by. The Association of European Express Carriers puts the value of their annual business inside the EC at Ecu15.7bn (£10.9bn), of which Ecu14.2bn is conducted within individual countries. Most of the couriers' international traffic is between the Community and the rest of the world.

Some post offices are fighting back with new premium mail operations, such as Britain's Datapost and France's Chronopost. But a group of express couriers is threatening to take Chronopost to court, alleging predatory pricing and unfair cross-subsidy.

Delivery services are also under pressure from new technology, such as facsimile machines and electronic mail.

Judging by early reactions to the Commission's initial ideas, a bitter battle can be expected. Already the air is thick with accusations from the private sector claiming that policy-makers in Brussels lack the courage of their political and economic commitment to 1992.

Mr Jim Campbell, adviser to the powerful European Express Organisation, said on reading the first draft: "Even Rowland Hill, founder of the modern post office in 1840, took a more enlightened attitude towards the postal monopoly."

Faced with these conflicting pressures, the Commission is trying to steer a middle course. Its draft document argues that monopolies for letters and printed papers ought to be retained to cover the fixed costs of the network, and that "the foundation of the Community's postal policy must be the requirement to ensure universal service."

These exclusive rights, it asserts, are fully provided for within the Treaty of Rome, "provided that the least restrictive option is sought".

Precisely where the line will be drawn is not clear from the Brussels discussion document, which favours criteria based on weight and price.

It strongly recommends that the weight limit on letters and packages be set at less than 500g, as opposed to the 1kg to 2kg – and up to 7kg in one case – which national post offices in the EC typically consider to be their privileged domain.

However, the attitudes and practices of individual national post offices vary considerably. The most liberal are the British, Dutch and Belgians, while in Germany the free-market Economics Ministry is pressing for a relaxation of the Deutsche Bundespost's monopoly. The Netherlands is winning business away from more conservative countries by offering unusually low charges for bulk mail from the rest of Europe to destinations outside the EC.

Regulation is generally most strict in southern Europe – at least in theory – although action by the Commission's competition department has compelled Italy to open its domestic market more widely to independent courier services.

The Commission is particularly ambiguous when dealing with cross-border mail in the EC, where it admits the service problem is acute.

It points out that "service improvements introduced in recent times by postal administrations seem to have been directly stimulated by the presence of competition" and concludes that "there do not seem to be significant economic reasons for including intra-Community services in the reserved area."

Yet the report also refuses to rule out the option of sanctioning a continuing monopoly in this area – even though most post offices have not, in practice, always enforced that monopoly.

Groups such as the European Express Organisation can take heart only from the assertion that much more "detailed work" has yet to be carried out.

Other Commission conclusions are more encouraging to advocates of liberalisation.

It says post offices should be stripped of their regulatory functions, that predatory pricing by the monopoly operators should be outlawed by minimising cross subsidies, and that the system of charging between national postal administrations for delivering each others' mail, known as terminal dues, should reflect costs.

One issue barely discussed so far is the treatment of postal services by customs and taxation services.

In a recent letter to Sir Leon Brittan, the EC's competition commissioner, Mr Bertie Coxall, chairman of the Association of the Smaller European Express Carriers (whose members include DHL and British Airways), claimed national customs authorities were discriminating against the express and parcel services of private carriers by according the post offices "easier, cheaper and faster methods of customs processing".

The message to lobbyists is now clear – they must act early if they want their voices to be heard.

Additional research by Paul Abrahams.

UK NEWS

Labour studies proposals to overhaul audit practices

By David Waller

THE Labour party's frontbench trade and industry team is considering proposals for a radical overhaul of accounting and auditing in the UK.

The proposals, drawn up by Mr Austin Mitchell, Labour MP for Great Grimsby, recommend a mandatory change of auditors every five years for quoted companies, a statutory definition of auditors' responsibilities and that accountancy firms should be banned from providing consultancy services to audit clients.

The proposals are the latest stage in a sustained attack on the accountancy profession by Mr Mitchell, who was until last year an opposition trade and industry spokesman. Whether or not they are adopted as official Labour party policy, the proposals may worry UK accountants as an indication of what life might be like under a Labour government.

Mr Mitchell believes that the recent series of company insolvencies demonstrates the failure of the accountancy profession to regulate itself. His recommendations include:

- Auditors' responsibilities to be defined by statute in the same way that directors' responsibilities are spelt out in Company Law. At present, auditors are simply required to say whether the accounts are "true and fair".

Austin Mitchell: radical plans for auditors

- Auditors to be required to report fraud to regulators. Such requirements already exist for auditors of banks and some financial services organisations. The proposal is that they should apply to the auditors of all large companies.
- Auditors must be prepared to "actively" satisfy themselves that a business is a "going concern". The profession has come in for much criticism that audited accounts provide no indication as to whether companies are on the brink of collapse.
- Audit reports should spell out what auditors are responsible for, and should comment specifically on the adequacy of the company's internal financial controls.
- Audits of quoted companies should change hands every five years.
- Auditors not to be allowed to provide services such as consultancy, book-keeping, executive recruitment or actuarial advice to audit clients.
- If an auditor resigns an audit, the reasons must be made public.
- An independent body to be set up to award the audits of large publicly quoted companies, in order "to free auditors from the purse-strings" of directors.

In the accounting field, Mr Mitchell's proposals recommend: a legal requirement for companies to publish cash-flow statements; balance sheets to be reformed so that assets are carried at market value; and companies should publish profit forecasts.

Finally, companies should disclose the expenditure they have made to control pollution and the extent of current emissions and discharges.

Littlewoods forms Soviet links for manufacturing and sales

By Ian Hamilton Fazey

LITTLEWOODS, the British retail clothing, mail order and financial-services group, has set up two joint ventures in Leningrad to manufacture and market clothing in the Soviet Union.

The Liverpool-based company has confirmed the deals but has disclosed no details.

Tass, the Soviet news agency, reported that Mr Francis Ball, Littlewoods' development director, was in Leningrad last month to launch the projects.

One venture involves Gostini Dvor, a leading Leningrad department store, which is to sell Littlewoods clothes.

The manufacturing agreement is with Mayak Amalgamation, which will make clothing to Littlewoods' specifications.

According to the Novosti press agency in London, the venture will enable Mayak to use new materials and learn new manufacturing technology.

Mayak hopes the arrangement will eventually help it to break into the world clothes market and sell Soviet-made clothes in the west.

- Raleigh International, the Nottingham-based bicycle manufacturer, is to enter a joint venture with the Soviet Union to make bicycles using titanium as structural material. The UK company will supply the technology for a Soviet military factory to produce 100,000 bicycles a year in a venture that might be worth £4m a year to Raleigh.

The Soviet authorities have agreed in return to supply the Nottingham factory with titanium for 30,000 frames a year. The UK bicycles are expected to sell for £1,000 each.

Warning of inflation threat to jobs

By Edward Balls

UK UNEMPLOYMENT may increase by more than a million by 1994 if wage and price inflation remains high, the Confederation of British Industry warns today.

UK membership of the European exchange rate mechanism has moved the economy into uncharted territory, the CBI says. Even if the UK succeeds in reducing inflation, it is still likely that unemployment will rise by 500,000 over the next three years.

The CBI's predictions come in a report analysing the fortunes of the French economy over the past decade. The French experience in the ERM after 1983 represents the closest parallel to the UK, according to the authors of the report. They are Professor Douglas McWilliams, the CBI's chief economic adviser, and Mr Douglas Godden, an economist.

Inflation in France fell from 12 per cent to 3 per cent between 1982 and 1986 at a cost of a 500,000 rise in unemployment.

A fall in wage inflation from 15 to 3.5 per cent between 1982 and 1987 was essential in achieving the reduction in price inflation, the report says. "This resulted essentially from management action, although it was buttressed by the effect of government policies."

The CBI appears less confident in the ability of British management to achieve a rapid fall in wage inflation. In its latest economic forecast, published two weeks ago, the CBI predicted that average earnings would grow by 9.3 per cent next year, compared with 9.8 per cent in 1990.

The CBI projected a further fall in earnings growth to 7.9 per cent in 1992. By then, unemployment will have risen to 2.1m in 1992 from 1.6m in 1990.

France's entry into the system was now considered a "resounding success" in spite of the rise in unemployment, today's report says.

Success in reducing UK inflation will depend critically on the extent to which the government can reduce wage and price inflation in the public sector, the authors add.

ERM discipline will hurt, says study

By Guy de Jonquières, International Business Editor

BRITAIN faces a much harsher adjustment to the disciplines of the European exchange rate mechanism (ERM) than did France and Italy in the late 1970s and early 1980s, according to a London Business School study.

The study says that greater exchange rate stability will benefit British companies in the longer term, provided that they curb wage rises, improve productivity and strengthen their brands, marketing and distribution in Europe.

By eliminating the short-term volatility of sterling, ERM membership would remove an important competitive disadvantage that had damaged the performance of British exports.

Britain's interest and inflation rates were likely to converge more rapidly on German levels than those of France and Germany after they entered the ERM, the study predicts. The transition would be more painful, however.

Less frequent exchange rate realignments had made the ERM "harder" since 1987 and sterling's scope for depreciation was limited by the decision to join near the centre of its 6 per cent fluctuation band.

The study says: "The UK will not be afforded the luxury of the relatively gradual squeeze on cost inflation operating through loss of international competitiveness, cushioned by realignments within the ERM which characterised France and Italy in the early 1980s.

"While the same prize of more durable growth is certainly there at the end of the tunnel, the road under the 'new look' ERM is rough and unforgiving." The study finds that exporters with relatively stable national currencies have been far more successful in capturing market share than competitors with volatile ones.

The study argues that erratic sterling movements have hurt Britain's export performance in three ways:

- They undermined efforts to develop brand loyalty by deterring foreign consumers and encouraging retailers to drop UK products when their prices rose on sterling appreciation.
- They discouraged foreign customers from making long-term commitments to invest in British machines and the training and spare parts needed to operate them.
- They made it harder for British exporters to bear the short-term losses involved in launching new products abroad.

A more stable export flow should make it easier to justify such investments, the study says.

"Over time, this will help British exporters to sell on the 'value added' of a total product-service-sales package."

Will ERM entry make British companies more competitive? Business Strategy Review, Autumn 1990. London Business School, Sussex Place, London NW1 4SA. Tel: 071-262 5050.

Industry told to guard its interests better

By Michael Cassell, Business Correspondent

ORGANISATIONS representing British industry must raise their status and protect their members' interests better when EC standards and regulations are drawn up, the National Economic Development Office says.

Nedo will today host a meeting in London of UK trade associations and chambers of commerce called to discuss ways of improving liaison on single-market issues.

The organisation claimed last night that strong representative bodies in France, Germany and other European nations were proving to be "far more active and effective" in ensuring that European legislation reflected the strengths and weaknesses of their own industries.

The chambers of commerce and trade associations are also expected to say many EC states are operating rules unfairly, giving possible scope for protectionist tendencies.

Right-wing group calls for leading role in EC

By Edward Balls

THE Institute of Economic Affairs, one of the most influential right-wing groups during Mrs Thatcher's government, has urged Britain to take a leading and constructive role in the development of a new Europe.

In a report published today on the eve of this week's intergovernmental conferences in Rome, the IEA also criticises Britain's "negative and reactive" stand on Europe.

The report outlines an alternative "market-based vision of European integration", combining decentralised power and accountable institutions.

It included a "guaranteed" role for national parliaments and wider powers for the European Parliament and the European Court of Justice.

"Britain must be a year ahead of the debates rather than six months behind at every stage," it says.

"Britain can be the voice of free trade, the opponent of protectionism and trade blocs."

Europe's Constitutional Future. IEA, 2 Lord North Street, London, SW1P 3LB. £8.95.

Call for private infrastructure funding

By Richard Tomkins, Transport Correspondent

CLEAR-CUT guidelines aimed at stimulating private-sector participation in road, rail and bridge construction are urged in a report from the National Economic Development Council.

The NEDC's construction industry sector group also proposes that the government should set up a consultative mechanism to involve industry and other interests in private financing for transport infrastructure projects.

Government efforts to attract private involvement in transport projects have so far met only limited success, because the construction industry has often found rewards outweighed by risks.

One of the industry's main criticisms of the present ad hoc system is that promoters of schemes are exposed to the unacceptable financial risk of investing heavily in developing proposed schemes, without any guarantee that they will go ahead.

The NEDC's report says private capital will only become involved in developing transport infrastructure projects if promoters are able to see clearly the associated risks and returns.

It concludes that guidelines should be established, laying down a procedure for introducing private sector participation in infrastructure projects.

The NEDC's construction industry sector group is to put its proposed guidelines to Mr Malcolm Rifkind, the new transport secretary, in the hope that he will endorse and implement them.

Private Finance for Public Infrastructure, NEDC Construction Industry Sector Group. NEDO Books, Millbank Tower, Millbank, London SW1P 4QX.

UK CAR REGISTRATIONS – JANUARY-NOVEMBER 1990

	November 1990			Nov '89	January – November 1990			Jan-Nov '89
	Volume	Change%	Share%	Share%	Volume	Change%	Share%	Share%
Total market	117,499	−18.02	100.00	100.00	1,946,097	−12.11	100.00	100.00
UK produced	53,981	−13.44	45.94	43.51	838,806	−11.76	43.10	42.93
Imports	63,518	−21.55	54.06	56.49	1,107,291	−12.37	56.90	57.07
Japanese makes	11,368	−33.33	9.67	11.90	229,546	−8.12	11.80	11.28
Ford group	31,979	−14.86	27.22	26.20	497,930	−16.81	25.58	27.03
– Ford	31,438	−14.53	26.76	25.66	487,470	−16.62	25.05	26.40
– Jaguar	541	−30.55	0.46	0.54	10,460	−24.66	0.54	0.63
General Motors	22,432	−14.16	19.09	18.23	325,456	−6.40	16.72	15.70
– Vauxhall	21,700	−13.99	18.47	17.60	312,907	−6.77	16.08	15.16
– Lotus	84	+95.35	0.07	0.03	974	+81.04	0.05	0.02
– Saab*	648	−24.65	0.55	0.60	11,575	+0.37	0.59	0.52
Rover**	16,262	−8.56	13.84	12.41	272,551	−8.65	14.01	13.48
Peugeot group	11,087	+0.91	9.44	7.67	178,958	−10.00	9.20	8.98
– Peugeot	7,791	+16.14	6.63	4.68	119,646	−10.64	6.15	6.05
– Citroen	3,296	−22.87	2.81	2.99	59,312	−8.70	3.05	2.93
Volkswagen group	6,641	−24.42	5.65	6.13	122,411	−11.13	6.29	6.08
– Volkswagen/Audi	6,179	−24.11	5.26	5.68	113,293	−9.18	5.82	5.63
– SEAT	462	−28.37	0.39	0.45	9,118	−8.36	0.47	0.45
Nissan	3,983	−41.12	3.39	4.72	105,213	−22.29	5.41	6.11
Renault	3,606	−40.52	3.07	4.23	65,840	−21.63	3.38	3.79
Volvo	3,986	−29.41	3.39	3.94	63,666	−19.32	3.27	3.56
Fiat group	2,829	−32.08	2.41	2.90	60,728	−18.87	3.11	3.38
– Fiat	2,395	−34.81	2.04	2.56	53,987	−20.54	2.77	3.06
– Lancia	119	−41.67	0.10	0.14	2,614	−14.83	0.13	0.14
– Alfa Romeo	315	+9.76	0.27	0.20	4,127	+4.35	0.21	0.18
Toyota	1,972	−48.93	1.68	2.69	41,393	−0.21	2.13	1.87
BMW	2,771	−0.65	2.36	1.95	41,983	−11.59	2.16	2.14
Honda	1,955	−1.31	1.66	1.38	30,171	+21.92	1.55	1.12
Mercedes-Benz	1,297	−21.06	1.10	1.15	26,078	−6.28	1.34	1.26

*GM holds 50% of Saab Automobile and has management control. ** Includes Range Rover.
Source: Society of Motor Manufacturers and Traders

New car sales down 18% last month

THERE was a faster fall in UK new car sales in November, when they dropped 18 per cent.

Sales for the first 11 months this year were 12.1 per cent lower than in 1989.

Leading the list of top ten best-sellers were four cars: the Ford Fiesta (144,695), Ford Escort (137,588), Vauxhall Cavalier (133,989) and Ford Sierra (124,116).

Ford, while still the clear market leader overall, is suffering a continuing erosion in its market share, which was 25.1 per cent in the first 11 months against 26.4 per cent a year ago. Vauxhall, the UK subsidiary of General Motors and its closest challenger, has gained ground to capture a share of 16.1 per cent share compared with 15.2 per cent a year ago.

NEWS IN BRIEF

DTI criticised over investor protection

LABOUR has accused the Department of Trade and Industry of complacency towards investor protection.

Ms Marjorie Mowlam, Opposition City spokeswoman, told a meeting in her Redcar constituency yesterday: "It is essential that, as we approach a single market in Europe for services, we must present a clean and investor-friendly face.

"Failing to do that . . . lets the investors down, lets the industry down and knocks confidence in our European future. Ministers must realise that DTI stands for the Department of Trade and Industry not the 'department for taking it easy'."

Cheltenham Tory

THE TORY party worker who attacked the selection of a black prospective parliamentary candidate for Cheltenham has been banned from the town's Conservative club.

Musical shares

SALES of LPs have declined by almost 20m a year compared with the mid 1980s.

Compact discs, although more expensive, have leapt ahead, according to a report by Euromonitor, a market analyst. Pre-recorded cassettes are still the biggest sellers.

Construction output

CONSTRUCTION industry output in the third quarter was 1 per cent lower than in the second quarter but 2 per cent higher than a year ago, figures from the Environment Department show. Total new work was unchanged on the previous quarter, but 4 per cent above the level a year earlier.

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Right-wing group calls for leading role in EC

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UK NEWS

Opposition renews its call for scrapping of poll tax

By Ralph Atkins

THE OPPOSITION Labour party last night sought to regain the political initiative in the community charge debate by making abolition of the tax a precondition for its co-operation in measures to soften the short-term impact.

The controversial community charge, or poll tax, was introduced by the Conservative party as a replacement tax for local services.

Mr Bryan Gould, opposition environment spokesman, said that, if its terms were met, Labour would co-operate fully should the government want to introduce laws before Christmas to alleviate the worst excesses of the poll tax.

Bryan Gould (left) challenges Michael Heseltine, the environment secretary, to abandon the poll tax

His comments followed the call last week by Mr Michael Heseltine, the environment secretary, for all-party talks on the community charge.

Labour has rejected his proposal as a gimmick with Mr Gould last night describing it as merely a "device to paper over the cracks".

Mr Heseltine will this week finalise details of the team of civil servants who will be given responsibility for considering proposals for revamping local government finance.

Headed by a senior civil servant, the team will include up to two dozen officials and consider suggestions put forward by political parties and others.

Among Conservative MPs concerned at the political effect of the tax, hopes are growing that significant reforms could be in place before April, when next year's bills are sent out.

Dr Keith Hampson, Conservative MP and prominent Heseltine supporter in last month's Conservative leadership contest, yesterday predicted "substantial changes".

Last week, Mr Heseltine made it clear that no complete solution to the poll tax could be identified and implemented in under two years. He hinted at interim adjustments.

Mr Gould said poll tax bills were still on course to average far in excess of £400 next year. Mr Heseltine's problem was that the prime minister had rejected all alternative systems of local government finance.

Mr Gould said that if it was admitted that the poll tax had to be abolished, he would recommend full rebates for the poorest.

Fresh call for parliament to consider constitutional reforms

By Ralph Atkins

FURTHER pressure on members of parliament to consider wide-ranging constitutional reforms comes in a report today by the left-of-centre Institute for Public Policy Research urging the introduction of a comprehensive bill of rights.

A bill of rights would enhance democracy in Britain and help to counter mounting concern about the protection of civil liberties, the IPPR argues. Ideally, it would form part of a written constitution.

Separately, a report published by the Fabian Society today calls for changes in the operation of parliament.

The author, Mr Peter Hennessy, is visiting professor of government at Strathclyde University in Scotland.

He says the present system "is almost designed to deter thoughtful people, who like their families, from standing for parliament".

He suggests an end to all-night parliamentary sittings, increased pay for MPs and a strengthened select committee to provide "reasoned, reflective, persuasive" criticism of the government.

The two papers add to the growing parliamentary debate over potential reforms, prompted in part by Mr John Major's willingness to consider possible changes.

The IPPR has drawn up a 19-article proposed bill of rights building on the European Convention on Human Rights and the International Covenant on Civil and Political Rights.

So far, the opposition Labour party has resisted proposals for incorporating the European Charter of Human Rights into British law.

The IPPR argues that "to make democracy a reality, fundamental individual rights and liberties should have legal protection in the form of a written constitution that even a properly elected parliament cannot change by ordinary legislation."

Tories may win backing of former SDP leader

By Ralph Atkins

THE FORMER leader of the centre Social Democrat party, Dr David Owen, yesterday moved closer to backing the Conservative party as senior Tories embraced the new agenda set by Mr John Major, the prime minister.

The strong hint by Dr Owen, a former foreign secretary in the last Labour government, that he may vote Conservative at the next election – if he does not stand for re-election in his own constituency – came as Sir Geoffrey Howe, former deputy prime minister, emphasised the benefits accruing from a changed prime minister.

Sir Geoffrey – whose resignation speech presaged Mrs Margaret Thatcher's downfall – said: "One of the changes that follows from Mrs Thatcher's decision to resign is that. . . certain topics that were regarded as unopenable are now clearly capable of re-examination."

On Channel Four television, Sir Geoffrey said he hoped Britain's viewpoint would get a better hearing in Europe. The government's proposals for the next stage of economic and monetary union had lacked credibility, "because of the extent to which it looked like we did not believe in them".

The warmth of Dr Owen, who split from the Labour party in the early 1980s to from the SDP, towards the prime minister signals the extent to which Conservatives could appeal to the centre ground in British politics.

Commenting on the prime minister's first fortnight in office, Dr Owen said: "I like, so far, what I have seen, but it is early days."

Mr Malcolm Rifkind, transport secretary, implicitly acknowledged that Mr Major's election had ushered in a new Tory agenda when he said on BBC radio: "What we have to show is that we are relevant to the needs of the 1990s – and they are different needs."

The Conservative party had to help those in society who had not benefited from the achievements of a free-enterprise economy, he added.

UK NEWS

Grid system enters commercial world

Juliet Sychrava on a natural monopoly with a key role in competition

NOW THAT the 12 regional electricity companies are close to flotation, the reasons for privatising the electricity industry are well rehearsed. There will, the arguments run, be more competition in electricity generation and supply, and the electricity wires will be thrown open to all users.

Where that leaves the National Grid Company (NGC), which takes over ownership and management of the national electricity transmission network, or grid, from the Central Electricity Generating Board (CEGB), is still uncertain.

Rather like the regional electricity companies, the NGC has a core distribution, or wires business. In simple terms, it owns, maintains, and operates the grid, and charges users a fee for that service.

Unlike the regional companies, it has no competitive role in the restructured industry, although the government has pointedly made the NGC an agency for promoting the new free market in electricity. Under the new Electricity Act, the NGC has an obligation "to facilitate competition in the supply and generation of electricity".

How the NGC will achieve that is still difficult to see. Ultimately, promoting competition means promoting the long-term health of the grid for the benefit of its users, and ensuring that all users can connect to the grid. The incentive for the NGC is that a healthy and accessible grid means future customers.

The company certainly has the technical expertise to maintain the system. What it can do beyond that is uncertain.

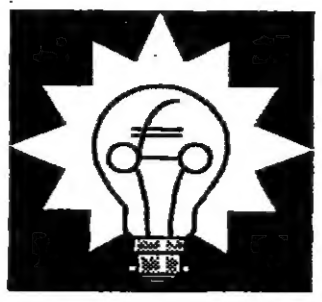
The grid, it can be argued, is a natural monopoly at the heart of the newly competitive electricity industry.

The NGC will not be sold directly to the public. Instead, its shares will be held via a holding company by the 12 regional electricity companies, which will receive dividends from the NGC. That will allow it to retain a degree of independence from its shareholders.

However, the NGC will lose much of the power of its forerunner in the days before privatisation. Because it could plan the location and amount of generation capacity, the CEGB had far more control over the long-term development of the grid. The new NGC will have little control over where new generation arises.

That has already provoked criticism from the Labour party, which has suggested that it would renationalise the company.

However, while old CEGB members within the NGC may take a similar line, the new order is following the government's lead in emphasising a desire to create opportunities and promote competition.



PRIVATISATION

Mr John Uttley, NGC finance director, believes that competitive electricity is the lifeblood of the NGC itself. "The NGC sees itself as a market-oriented, customer-oriented company, not just as a provider of wires. The health of the company depends on electricity being in fashion. If it goes out of fashion the grid will wither."

However, the NGC does not necessarily benefit from more users. Higher volumes are not a sufficient condition for profitability in the main wires business, which contributes more than 80 per cent of NGC turnover and the bulk of the company's profits.

Turnover in the wires business is volume-sensitive, because most charges to users are linked by a regulatory formula to rising demand. Profits may increase with volumes, provided capital expenditure does not increase simultaneously.

Although it owns the grid the NGC has only two real means to control the way that the grid develops geographically.

The first is the series of charges it makes to generators and supply companies for connecting to and using the grid. Those charges are designed by the regulatory system to reflect local supply and demand, and to encourage generators and suppliers to connect where they are most needed.

Because there is a concentration of generation capacity in the north, and electricity demand in the south, charges for generators are zero in London, where they are most needed, and highest in the north, where there is already excess capacity.

Similarly, supply companies will be charged least for connecting in the north-east, where there is a shortage of supply companies relative to generation capacity. Thus the regulator hopes to cut the expensive transfer of electricity across the country and maximise the system for all users. How adequate these zonal messages are is debatable. They are only one factor considered by a generator; another is proximity to a source of natural gas.

While the regulatory formula allows the NGC to raise its charges only to reflect rising national demand, and thus rising infrastructure costs, it does not allow the company to alter prices in specific regions as local demand patterns change.

More worrying for the NGC, a new connection and the resulting increased flow of electricity through the wires may mean spending large sums on reinforcing cables many miles away, and the connection charge does not cover that kind of cost.

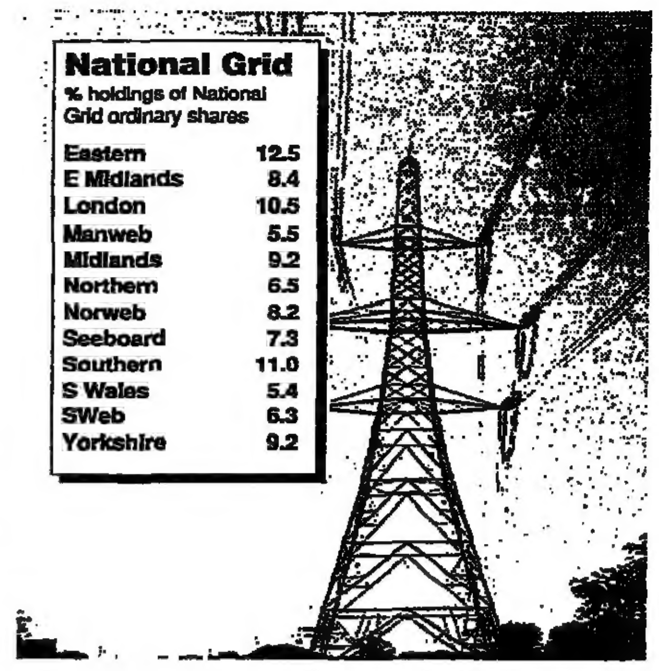
In future, the company hopes, the regulatory regime may change to accommodate those two difficulties.

Regulatory obstacles aside, the company's main business risk is managing its large capital expenditure budget, which is expected to be about £290m this year. Because the company must connect new users, it can face sudden lump sums of expenditure arising from new connections. However, Mr Uttley points out, the continuous maintenance being carried out on the grid should limit that risk.

It would be wrong to suggest that the NGC faces only challenges and obstacles preventing it controlling its own future. Its core business, setting aside the risks of heavy capital expenditure or any tightening of the regulatory screw, is secure.

That is important for its shareholders, the regional electricity companies, which will collectively receive a forecast dividend of £104.5m for the year to October 1991. For the largest shareholder, Eastern Electricity, for example, that means £13.06m, of a total historic cost pre-tax profit of £112.4m.

Still, whether the regulatory framework gives the company any scope to fulfil its obligations, or gives the new electricity industry a truly competitive future, is uncertain. The company has not yet shaken off a traditional and bureaucratic public-sector manner and, given its size, may take some time to do so.



National Grid

% holdings of National Grid ordinary shares

Eastern	12.5
E Midlands	8.4
London	10.5
Manweb	5.5
Midlands	9.2
Northern	6.5
Norweb	8.2
Seeboard	7.3
Southern	11.0
S Wales	5.4
SWeb	6.3
Yorkshire	9.2

Frank Field: refusing to stand in contest re-run

Labour's deselection row flares over Field

By Ralph Atkins

LABOUR party in-fighting over the deselection of Mr Frank Field, MP for Birkenhead, intensified yesterday after Mr Field said he would not stand in a re-run of the contest under a timetable being discussed.

Party officials responded with surprise and scarcely hidden annoyance to a letter Mr Field sent to Mr Neil Kinnock, the Labour leader, last week.

In it, Mr Field said not enough had been done to clamp down on improper activities in the constituency. He said the timetable for selection, discussed by his constituency executive last Thursday, would not result in a fair contest.

However, party officials said that no final decisions had been taken on re-running the selection meeting and expressed surprise about the action taken by Mr Field.

The matter will be considered by Labour's National Executive Committee (NEC) on December 19. Mr Joyce Gould, the director, is expected by have compiled another report on the constituency party.

The row is likely to add to the embarrassment caused to Mr Kinnock by the Birkenhead party with its accusations of intimidation and infiltration by Militant extremists.

Recommendations for changes were made in a report to the NEC in the summer but the north-west England region has been preoccupied by parliamentary by-elections.

Strict rules on waste dumping out this week

By John Hunt, Environment Correspondent

TOUGH REGULATIONS to control fly-tipping – illegal dumping of waste – will be issued by the Department of the Environment this week.

The private members' bill to stop fly-tipping, introduced by Ms Joan Ruddock, Labour MP for Deptford, became law in July last year as the Control of Pollution (Amendment) Act. Since then, legitimate contractors have continued to suffer from the illegal activities of fly-tippers who can dump waste on the cheap.

"We have been in a period of limbo," said Mr David Boyd, industrial director of the National Association of Waste Disposal Contractors (NAWDC) which represents 90 large companies. "It would have been reasonable to expect the regulations to appear a year ago."

FT SATELLITE MONITOR

BSkyB dish sales surge

By Alice Rawsthorn

PUBLICITY about the merger of the Sky and BSB satellite television services to form BSkyB resulted in increased sales of satellite dishes in Britain last month.

The monthly FT Satellite Monitor survey, carried out by Continental Research, found that 82,000 new dishes were installed in November, bringing the total number installed in the UK to 1.2m, more than three times the figure a year ago.

Sky and BSB announced their merger at the beginning of November. The new BSkyB service uses the old Sky technology, including Astra receiver dishes, rather than the BSB system with its Squarial dishes.

As a result, almost all the satellite dishes installed last month were Astra. According to the survey, 77,000 Astra receivers were installed in November, 40 per cent more than in October. The growth is due partly to the demise of BSB and partly to a seasonal increase in sales during the approach to Christmas.

Container terminal berth

EDMUND NUTTALL has won a £12.5m contract from Maritime Transport Services [MTS] to extend the new container terminal berth at Thamesport, Isle of Grain. This second berth at the high-technology maritime development represents Phase II of a project that also involved Nuttall as main contractor for the original jetty that was completed by the company in April this year. The new international container terminal is on the north bank of the River Medway in Kent.

The latest contract includes the construction of a further 230 metres of jetty to the east of the Phase I berth construction [the latter being 314 metres in length and 50 metres in width] to provide a second container-handling berth. The width of the jetty varies from 50 metres down to 43 metres and consists of a reinforced concrete deck supported on tubular steel piles. The jetty extension will have fenders to accept ships up to 115,000 tonnes displacement.

Before construction can begin, Nuttall is removing Jetty No. 4 at the site of the old BP Oil refinery, as well as various other marine structures. Dredging of the area under the jetty construction will give 13.5 metres of water alongside the berth before piling operations commence. The duration of the contract, which also includes deck fittings such as crane rails, lighting, service pits, bollards, freshwater and fire hydrants, is 55 weeks.

* * *

SEVERFIELD-REEVE, the structural steelwork specialist, has been awarded contracts worth in excess of £4.5m. The two largest contracts are for the design and erection of 2,100 tonnes of structural steel at a new Tesco supermarket in Bridgend and a new manufacturing plant for Nippon Denso in Telford.

CONTRACTS

£25m Almack House project

Two contracts for office projects in central London, together worth £47m, have been won by TROLLOPE & COLLS CONSTRUCTION, a member of the construction division of Trafalgar House.

The first, a £25m contract awarded by London & Edinburgh Trust, is the Almack House development at 26-28 King Street and 52 Pall Mall, SW1 and includes the construction of seven floors of air conditioned office accommodation and seven floors of residential accommodation together totalling 147,000 sq ft.

Externally, the properties will have high quality cladding comprising banded layers of Portland stone on precast concrete panels with polished granite features. The windows and curtain walling and all fenestrations up to the fifth floor will be in bronze.

The second contract, worth £22m, is for a redevelopment in Farringdon Road where construction has started on a seven-storey building for an international company which will enlarge its London offices by about 108,000 sq ft.

In conjunction with Matthew Hall Engineering Services, the architect set out to achieve a design incorporating the latest developments in information technology and energy efficient services.

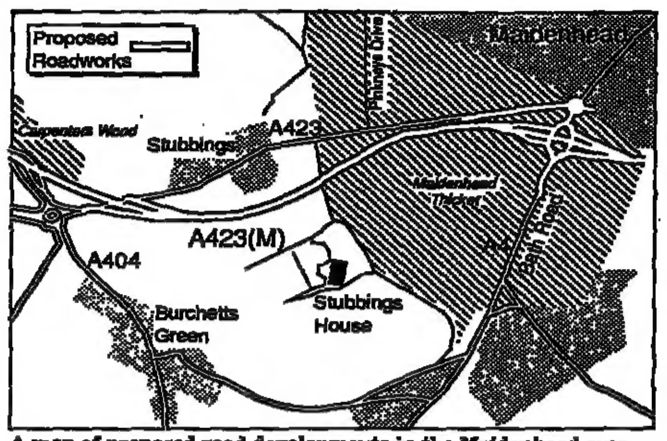
The constricted urban site requires structural engineer, Andrews Kent & Stone to work in close conjunction with Trollope & Colls Construction to overcome the constraints imposed by the close proximity of the culverted Fleet river, post office underground railway and the east/west crossrailroute. Both projects are due for completion in late 1992.

Major road improvements in Berkshire

An £8.4m contract for a new dual carriageway section of the A423 between Maidenhead Thicket roundabout and Burchetts Green roundabout in Berkshire has been awarded to BIRSE CONSTRUCTION.

The scheme includes the grade separation (two - level junction) of the existing A423(M)/A4/A423 Maidenhead Thicket roundabout.

The line will pass through the Thicket in shallow cutting, then across the existing A423 and through parts of Carpenter's Wood before joining the A404 Marlow - Bisham bypass, north of the A404/A423 Burchetts Green roundabout.



A map of proposed road developments in the Maidenhead area

Work on the 3.2 kilometre section is expected to start shortly and the project will take two years to complete.

Mr Christopher Chope, Minister for Roads and Traffic, said: "The scheme will bring considerable environmental relief to the village of Stubbings and will mean a better and safer road for the user."

The development programme will also mean that the important A423(M)/A423/A404 route from the M40 at High Wycombe to the M4 will become dual carriageway throughout its length.

Cargo facilities at Aberdeen Harbour

Aberdeen Harbour Board has awarded a contract valued at almost £725,000 for the construction of another cargo transit shed at the port.

The work will be carried out by HALL & TAWSE SCOTLAND and is scheduled for completion in summer 1991.

The latest facility, at 2,000 sq metres (20,000 sq ft), is the largest in a series of five sheds developed since 1986 when a purpose-built forest products terminal, incorporating two of the sheds, was opened on Regent Quay to handle imports of wood pulp.

Since then, two others have been developed, one on Waterloo Quay, the other on Blaikies Quay.

The new shed, which will handle forest products and general cargo, will be sited on Pacific Wharf. It will meet all Customs and Excise requirements.

The project will bring modern quayside transit shed facilities operated by the Harbour Board to a total of 6,800 sq metres (68,000 sq ft).

Mechanical systems for Sizewell B

LAING INDUSTRIAL ENGINEERING AND CONSTRUCTION has secured the mechanical works contract for the Radwaste Plant at Britain's first pressurised water reactor being built at Sizewell B for Nuclear Electric.

The contract, worth about £8m, includes responsibility for management, detail design, procurement, fabrication and installation of mechanical and pipework systems.

Work involves offsite fabrication and onsite erection of about 22,000 metres of stainless steel and carbon steel pipework plus installation of 700 items of plant and 300 tonnes of steelwork.

LEGAL COLUMN

Storm in a coffee cup highlights EC contest over competition

By **Robert Rice**, Legal Correspondent

THE European Commission's decision to allow the merger of two Netherlands coffee companies to go ahead in spite of a recommendation against it by Sir Leon Brittan, EC commissioner for competition, has once again raised concern that European policy on competition is becoming increasingly hampered by narrow political interests within the commission.

Inevitably, the disagreement about the merger of Douwe Egberts and Van Nelle has also rekindled the debate as to whether the commission is the correct body to supervise competition within the community.

To be credible, the EC's approach to competition needs to be fair and consistent. That, some have argued, would be better guaranteed by an independent agency free from political influence, modelled on, say, the German cartel office.

Sir Leon's initial view was that the Fl 1.39bn (£427m) takeover of Van Nelle in February 1989 should be challenged. The merger gave the two companies 70 per cent of the Benelux coffee market, which he believed amounted to an abuse of a dominant position contrary to the Treaty of Rome.

In May 1989, the commission announced an investigation into Douwe Egberts, which is owned by Sara Lee, the US food company. The investigation was opposed by Mr Frans Andriessen, the Dutch EC trade commissioner.

He supported his country's argument against interference from Brussels on the basis that the commission has power to deal only with anti-competitive practices affecting "the common market or a substantial part thereof" and the Benelux market did not amount to a "substantial part" of the common market.

Between May 1989 and July this year, attempts were made by the commission to reach a negotiated settlement. However, by mid July, when the merger came up for discussion by the 17 commissioners – who have the final say in competition matters – no agreement had been reached.

Sir Leon, still maintaining his opposition to the merger, proposed that the two coffee companies should be asked to reverse it in part. However, Mr Andriessen voted against the proposal – the only commissioner to do so – and it failed to get the necessary number of votes to be carried. A final decision was postponed until a later date, allowing time for further negotiation.

There is some dispute in Brussels about precisely what happened next and why Sir Leon – after 20 months – suddenly decided to abandon his opposition to the merger.

Some insiders say the commission's failure to support him represents a serious setback for his approach to competition issues. They maintain that he knew he lacked sufficient support among his fellow commissioners to get his proposal through, so, rather than risk a humiliating defeat, he decided to drop the case.

Much, it seems, would have depended on the price of coffee at any given time

The picture is somewhat clouded, however, by the new EC merger regulation, which came into force in September. Brussels sources close to Sir Leon maintain that the decision not to press his recommendation to a vote was made because, when the commission came to consider the case again in mid September, it was felt that blocking a merger to which the EC regulation would probably not have applied just 10 days before the regulation took effect, might seriously undermine the central principle of one-stop merger control.

Sir Leon is the staunchest advocate of the principle that mergers caught by the regulation should be dealt with exclusively by the commission, and that other cases should be dealt with exclusively by the member states concerned.

The Dutch had earlier used that argument in support of their case that Brussels should not interfere in the merger.

Officials in the Hague said that, had the regulation been in force when the merger took place in February 1989, the commission would not have been able to intervene because the combined worldwide turnover of all the parties involved, including Sara Lee, fell below the Ecu 5bn (£3.5bn) threshold. Under that level, the national competition authorities of the member states concerned have exclusive jurisdiction over monitoring mergers.

Here again there is some dispute as to the facts. Sources within the commission say it was far from clear whether, had the merger regulation been in force at the time, it would have applied or not.

The conclusion was that it probably would not have applied. That was not because the merger would not have reached the worldwide turnover threshold but because the turnover of Van Nelle within the EC fell below the second turnover threshold of Ecu 250m necessary to trigger the merger regulation.

Much, it seems, would have depended on the price of coffee at any given time.

Whichever version of events is correct, this additional row about precisely why Sir Leon dropped his opposition to the merger only serves to underline the scope for disagreement which exists within the commission on competition issues.

Was the disagreement within the commission over the Douwe Egberts-Van Nelle merger simply a one-off incident that can now be discounted? Or was it symptomatic of a far more serious split within the commission over competition policy in general?

When the 17 commissioners come to have their final say in competition matters, they are supposed to put aside national or sectional interests in reaching their decisions. All too often, however, when the interests of their own countries are involved, they appear to lose sight of that imperative.

There is already considerable opposition from the more protectionist-minded southern member states to Sir Leon's policies on state aids to industry and on competition policy in general.

Mr Andriessen's willingness to dig his heels in over the Douwe Egberts-Van Nelle merger suggests that when national interests are involved, even the most liberal-minded members of the commission in matters of competition cannot be relied upon to put the interests of the community first.

Sir Leon has frequently emphasised the importance of freely competitive markets to the success of the 1992 programme. There is little point in dismantling barriers to trade if businesses are allowed to build new ones.

He is a tough and effective advocate of free competition. Within the community, however, only Germany and Britain fully support him. Few of the other member states have any experience of regulating competition at a national level or have ever seen the need to do so.

Attitudes are changing slowly, most noticeably in France and to a lesser extent in Italy. However, in the ordinary course of events it seems inevitable that there will be occasions when member states will attempt to use political pressure to influence competition decisions.

That should not matter, provided Sir Leon does not allow himself to get into a position where he can be outgunned or outvoted by national interests.

If that were to happen, as it appears may have been the case on this occasion, the pressure for taking competition out of the hands of the commission and placing it under the control of an independent agency might become overwhelming.

The commission, too, is likely to resist handing over the final say in such an important area to an outside agency. It would undoubtedly insist on some mechanism for ratifying or vetoing competition decisions made by such a body.

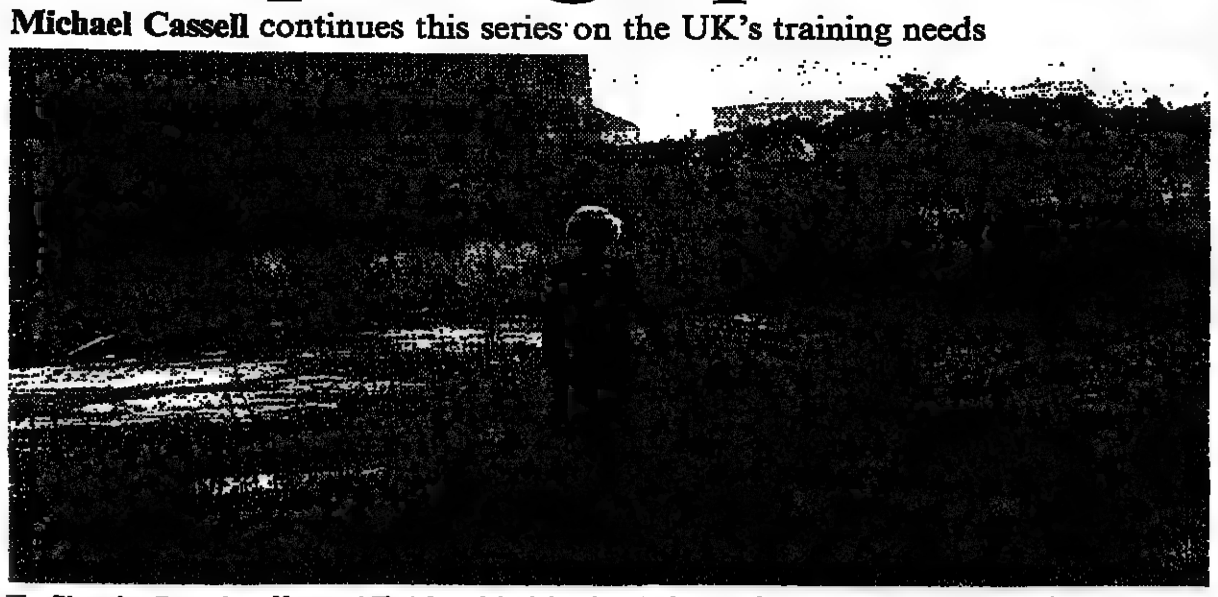
Clearly, it would be preferable if Sir Leon could find some way of carrying the rest of the commissioners with him on competition issues. Perhaps a more persuasive and less forthright approach might be the answer. The commission can certainly not afford many more disputes like the Douwe Egberts case.

MANAGEMENT

Tecs are intended to stimulate local economic activity as well as to encourage the provision of workplace skills

A mission to spread the enterprise gospel

Michael Cassell continues this series on the UK's training needs



The Phoenix effect: since Margaret Thatcher visited this derelict factory site in 1987, the Teesside Business Growth Centre has started to take shape

One of the enduring images of Margaret Thatcher's years as prime minister was the sight of her standing alone in a derelict wilderness on Teesside, carefully chosen for its symbolic association with an old, industrial order and its promise of a new, successful beginning.

The site was once occupied by the vast steel fabricating shops of Head Wrightson, a business which, like many others, succumbed to the economic shake-out of the early years of Thatcherism. It was in places like this, said the prime minister, that industries capable of beating off world competition would be spawned by Britain's new enterprise culture.

That site used for the Thatcher photo-opportunity is now being developed and is the location for another, less fleeting political initiative.

Taking shape on part of the land is the Teesside Business Growth Centre, the ambitious brainchild of the Teesside Training and Enterprise Council. Like the other 81 Tecs being set up in England and Wales, the local Tec is to carry the banner in the provision of modern workplace skills and the stimulation of local economic activity.

The centre, envisaged as a "one-stop" shop offering a full range of support and advisory services for new businesses and those seeking to expand, will also provide space for inward investors to the area seeking staff. There will be an enterprise club and a constantly-manned advice line for business subscribers.

According to Bob Little, chief executive of the Teesside Tec: "There has been a tendency in the region for people to rely on others to manage them, whether in the public or private sectors. There is a need for a cultural change in attitudes which we can help stimulate but which, in places like Teesside, still has a hell of a long way to go."

Helping to reverse Britain's damaging lack of workplace skills might be considered a daunting enough task for the Tecs; acting as the driving force behind local, economic regeneration – the second element in their brief – adds another, significant dimension to their responsibilities.

Undaunted, Tecs like those on Teesside are placing a great deal of emphasis on their mission to spread the enterprise gospel. Many accept that the dividing line between training and enterprise is often hard to define and invariably crosses over. But, with varying degrees of enthusiasm and success, they are pursuing a range of initiatives intended to help create an environment in which enterprise can flourish.

A prime and universal concern is to win the positive support of the existing framework of local providers by forging strategic alliances; Tecs are also being warned not to take on too many services and, in consequence, to deliver inadequately.

The Tecs' enterprise activities have, inevitably, generated suspicion among certain local providers, while some local authorities have been openly antagonistic, usually on political, rather than philosophical grounds. But many organisations which could have been seen in a competitive light are proving supportive.

A recent survey, for example, showed that more than three-quarters of the country's enterprise agencies felt more positive about the future with the arrival of Tecs. Sixteen Tec chairman have enterprise agency service under their belts and 160 of the 1,200 Tec board members have also come from the agencies.

Business in the Community, the charity formed to promote the role of business in regenerating communities, believes the Tecs have an invaluable role to play.

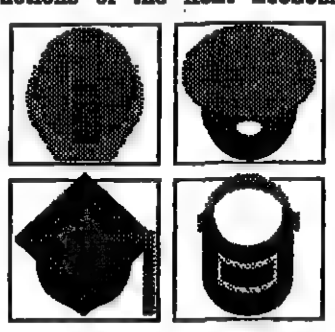
David Grayson, managing director of operations at BIC, says his organisation is a passionate supporter of Tecs, with their capacity to create a series of role models for businesses.

But BIC believes that the Tecs must be customer-driven, not programme-led, and must not be constrained by the rules of existing business support and advisory schemes. In addition, it believes that they should work to help establish clear links within the existing network of support organisations.

The emphasis, it says, should be on improving the quality of available assistance; it does not want to see Tecs drawing in to the centre all the enterprise responsibilities.

A wide variety of formulas for local co-operation is already emerging.

In one of the most radical initiatives, Kent Tec has contracted with its county council to take over the functions of the Kent Economic Development Board, thereby fully integrating local training and enterprise activities. The Board, which was set up by the county council to attract inward investment in the wake of the Chatham dockyard closure, has already established a rapport with local chambers of commerce and enterprise agencies.



TRAINING ON TRIAL

It has already consulted 18,000 companies in its area, quickly establishing the need for co-ordination and co-operation. According to a spokeswoman: "We quickly identified a crying need to eliminate the confusion surrounding the multiplicity of services available."

Apart from the Kent Tec's £22m training budget, its spending on enterprise activities will be funded by the city council. It claims the local enterprise agencies do not regard it as a threat but as an effective partner.

South and East Cheshire Tec has enlisted borough and county council representatives on its development committee. The lines of demarcation and the parameters for co-operation are, consequently, agreed.

The Tec is clearly dividing the thrust of its enterprise operations between the small businesses started up in recent years and those which are more established, employing up to 250 people.

Companies join the Tec for a small fee and can then plug into a series of tailored services. Member companies can, for example, ask for the help of a Tec adviser who will sit in for a period to help diagnose needs.

According to Richard Guy, the Tec's chief executive: "The yawning gap in our arrangements is just how Tecs are supposed to deal with the Department of Trade and Industry."

He says medium-sized employers in particular want a single-gateway service, which provides access to all support mechanisms. The government's decision not to hand over the DTI's own Enterprise Initiative activities to the Tecs – a policy which many believed would have been the most logical step – has, he claims, undermined that objective.

Northumberland Tec, which started life in September, has been quick to link up with the county's enterprise agencies. It recognised that they were well-equipped to help business start-ups but that they had neither the resources nor the expertise to offer help to companies at later stages of development.

Under a partnership programme, the enterprise agencies have become wholly-owned subsidiaries of the Tec, enabling enterprise advice to be more effectively organised and promoted.

Stephen Cowell, chief executive of Northumberland Tec, acknowledges the natural tendency of Tecs to concentrate more on training but says they must "grasp the nettle" of enterprise promotion. "We are adamant that we are going down the enterprise route. We must not bite off too much at once but it is crucial we are not just seen as a training organisation."

The extent to which Tecs can pursue their enterprise remit and meet the government's lofty ambitions will, inevitably, depend to a great extent upon the resources available.

There are repeated warnings that, because of the comparatively modest budgets available to them for small business activity, there is a danger that, far from being seen as a growth area, will receive low priority.

Though Tecs complain about the realities of meeting the government's objectives in the face of proposed budget cuts, recent agreement with the DTI, giving them more flexibility in the allocation of available funds in order to reflect local requirements, has been widely welcomed.

Tecs like Northumberland, however, are not setting out to count on government support. According to Cowell: "Our expectation is that funding will decline and our business plan has been made accordingly. We have to ensure that any decline in central government resources does not affect our progress."

Alan Bartlett of the Association of British Chambers of Commerce says the real difficulty for Tecs will be in defining what, for their purposes, enterprise actually means.

"A great deal of activity will be generated quite quickly because of the quality and experience of Tec board members but translating them into sustainable activity is the real challenge. Some services may be very ingenious but might, at best, only pay their way."

Previous articles in this series were published on November 28 and December 3.

IBM joins ranks of 'transnationals'

By Christopher Lorenz

International Business Machines has been admired for decades as the very model of a mature multinational. It has been praised, by business people and politicians alike, in particular for its readiness to invest in high added-value jobs around the world, putting research, design, development, and engineering facilities - not merely manufacturing - into country after country.

So it may seem churlish to argue that the computer giant is only now about to become a full member of a select band of pioneering "transnational" manufacturers which includes two of its arch rivals, Hewlett-Packard and NCR.

The move that will catapult IBM from multinational to transnational status - giving it the sort of organisational structure that should become the norm for large corporations over the next 20 years - was announced last week.

As described on this page on Friday, IBM has decided to shift the global HQ of one of its six "lines of business" (product divisions, in everyday parlance) from the US to Britain. About 120 executives at the head of Big Blue's $10bn-plus communications systems business will move from New York to near London during the course of 1991.

By starting to disperse head office decision-making on global product and marketing strategies away from its home base in this fashion, IBM will join a club which for some years has included Unilever, Procter & Gamble, Ericsson, Philips and NCR. The latter began to decentralise responsibilities for its worldwide divisions from Dayton, Ohio, to Scotland, Germany and elsewhere more than a decade ago.

More recently this group of organisational innovators has been joined by Nestlé and ABB, and to some extent Ford, Electrolux and Britain's APV, a food processing equipment maker which three years ago established leadership of each of its worldwide businesses in various "lead countries".

Some of these companies, notably Electrolux and APV, were more or less forced into this partial or complete dispersal of key divisional responsibilities away from their base countries; they acquired foreign enterprises with product development, marketing and other expertise as strong as their own.

But others have started to develop transnational structures out of choice. Four months ago Hewlett-Packard joined the ranks good and proper when it announced that the global HQ of its personal computer "product group" (ie division) was being shifted from California to France. HP had previously hovered on the edge of the club for many years through a gradual build-up of units around the world with full responsibilities for their own region.

IBM took a half step towards transnational status last July, but only within Europe, when it announced the dispersal to national unit presidents of many of the divisional and other responsibilities previously held by its European head office in Paris.

But this rearrangement involved purely regional decision making, on a pattern somewhat similar to HP's. Global responsibility for the product planning and development of all IBM's six product divisions remained in the US.

Last week's move breaks this long-standing IBM convention, even if it keeps the reins of the transferred activities firmly in the hands of an American, Ellen Hancock. NCR and HP, by contrast, have put local nationals at the head of the equivalent units they have dispersed (as has IBM with its various country organisations).

The trend to transnationalism is important for several reasons. Not least is the need, in organisational culture and structure as much as in product strategy, to create a fine balance between globalisation and localisation.

The most strident advocates of organisational "global localisation" are not the Americans or Europeans who are practising it, but the Japanese. Yet even commendable pioneers such as Sony and Nissan have far to go before they not only devolve complete decision-making over particular divisions, but also create a really international corporate culture. These are just two of the tests of true transnationalism.

THE WEEK AHEAD

ECONOMICS

UK inflation vies with Gulf moves

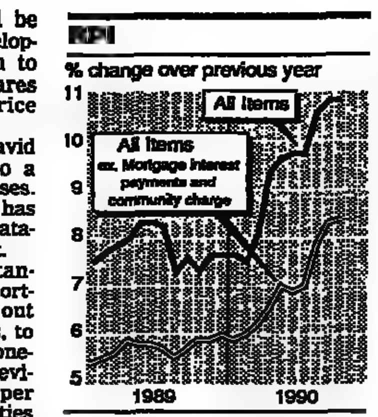
FINANCIAL markets will be hypersensitive to Gulf developments after Iraq's decision to free hostages pushed shares prices up and the oil price down last week.

On the UK home front, avid attention will be given to a number of big-index releases. Friday's retail prices index has been flagged as the likely catalyst for an interest rate cut.

Analysts expect a substantial fall in inflation, as mortgages and other items fall out of statisticians' calculations, to around 9.7 per cent. As monetary growth and anecdotal evidence all point to a deeper recession than the authorities have so far been prepared to admit, the markets are half-expecting an interest rate cut of up to one percentage point to accompany the release.

If the RPI is not the trigger, the markets will continue to expect a cut by the end of the year – depending on sterling's strength within the exchange rate mechanism. What is becoming clear is that any easing will be for economic rather than political reasons. For the moment, the government has no need to stimulate its standing in the polls – though the economy is likely to appear in need of measures to stimulate growth.

RPI



The strength of inflationary pressures and consumer demand will be manifest in today's factory gate prices and retail sales figures for November.

Both are expected to describe a weakening trend, while the labour market data on Thursday is expected to confirm the upwards movement of unemployment with another large rise.

Internationally, things will be equally busy on Friday as the intergovernmental conference on European economic and monetary union starts in Rome. There, Mr John Major, the prime minister, and Mr Norman Lamont, the chancellor, will present the UK's proposals for a 13th currency. The conference is also aimed at changing the EC's founding treaty.

Other events and statistics, with median market forecasts from MMS international, the financial research company, in brackets include:

Today: UK, November producer input prices (down 0.8 per cent), output prices (up 0.3 per cent), provisional retail sales (up 0.2 per cent). Brussels, Economics and finance ministers meeting. Basle, Switzerland, governors of G10 central banks hold regular meeting at Bank for International Settlements.

Tomorrow: Japan, central bank quarterly report. US, third quarter current account, wholesale trade for October.

Wednesday: UK, third quarter balance of payments, international banking statistics. US, housing completions for October. Austria, year-end Opec conference.

Thursday: UK, labour market data, October average earnings (10.25 per cent), November unemployment (up 35,000), capital issues and redemptions. US, November retail sales (down 0.5 per cent), sales ex-autos (flat), November money supply. Australia, November unemployment (down 25,000), October retail trade (down 0.3 per cent).

Friday: UK, October industrial production, manufacturers' unit wage costs, November retail prices index, tax and price index. Rome, Intergovernmental Conference. US, November producer price index (up 0.1 per cent), ex-food and energy (up 0.2 per cent), industrial production (minus 1 per cent), capacity utilisation (81.6 per cent), October business inventories (up 0.3 per cent).

Rachel Johnson

UK COMPANIES

RACAL ELECTRONICS and its 80 per cent-owned subsidiary Racal Telecom, report interim results on Wednesday. The telecom side is expected to have made all the running with forecasts for it in the £105m to £115m pre-tax range, against £75m last time.

However, the rest of Racal Electronics' businesses have not been doing so well. Forecasts for the whole group are around £95m against £82.5m in the first half last year.

Little news is expected with the figures of the group's plans to demerge Racal Telecom and Racal Chubb, the security division, next year and to launch a management buy-out of the remainder later.

The interim reporting season for the 10 water companies will move into its final lap on Wednesday when Severn Trent is due to unveil the seventh set of results. Analysts will be wanting to hear whether Severn intends to concentrate on its core activities for the moment. Indeed, some think in an attempt to put the Caird episode behind it, Severn may opt for a really bumper dividend increase.

However, most have been looking for an increase over last year's pro forma payment of about 15 per cent, or the average for the companies so far, giving a net payment of 5.7p. Pre-tax profits of £126m-128m are expected.

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Moran Holdings, Minivar House, 19/20, Garlick Hill, EC., 11.30.
BOARD MEETINGS
Finals;
Airsprung Furniture
Airtours
Cronite
Hardanger Properties
Hardys & Hansons
Perpetual
Sturge Holdings
TMD Advertising Holdings
Wolverhampton & Dudley Breweries
Interims;
Associated British Engineering
British Land
Creighton Naturally
Hoskins Brewery
Marling Industries
Oriflame International
Robertson Group
Scottish & Newcastle Breweries
Seton Health Care
Whitecroft
■ TOMORROW
COMPANY MEETINGS:
DAKS Simpson, 34, Jermyn St., SW., 12.00.
Keystone Investment, 33, King William St., EC., 10.30.
London & St. Lawrence Investment, 27, Minories, EC., 12.30.
Majedie Investments, Queen's Room, Baltic Exchange, 14/20, St. Mary Axe, EC., 12.15.
Mowat, The Butchers' Hall, 87/89, Bartholomew Close, EC., 12.00.
BOARD MEETINGS
Finals;
Blick
Carrs Milling Industries
Granada
Richards
Interims;
BSS
Charter Consolidated
Clayhithe
Dowty Group
Ferranti International
Gold Fields Corporate Services
Northamber
Stewart & Wright
Sutherland Holdings
Wardell Roberts
■ WEDNESDAY
DECEMBER 12
COMPANY MEETINGS
Kalamazoo, Mill Lane, Birmingham, 11.30.
Low (Wm), Baird Ave., Dryburgh Industrial Estate, Dundee, 12.00.
Millwall Holdings, Barbican Centre, EC., 9.45.
Town Centre Securities, Town Centre House, The Merrion Centre, Leeds, 2.30.
BOARD MEETINGS
Finals;
Albion
Carlton Communications
Chemring
Compass Group
Countryside Properties
Polar Electronics
TSB Bank Channel Islands
Venture Plant
Interims;
Baker, Harris & Saunders
Beaverco
Borthwicks
Bulmer (HP)
Fine Art Developments
Fuller, Smith & Turner
MS International
Platon International
Plysu
Racal Electronics
Racal Telecom
Severn Trent
Unit Group
■ THURSDAY
DECEMBER 13
COMPANY MEETINGS
British Empire Securities & General Trust, Saddlers Hall, Gutter Lane, EC., 12.00.
Fleming Japanese Investment Trust, 25, Copthall Ave., EC., 12.00.
Overseas Investment Trust, 23, Great Winchester St., EC., 12.00.
Scottish National Trust, Charles Oakley House, 125, West regent St., Glasgow, 12.00.
Smart (J), 28, Cramond Road South, Edinburgh, 12.00.
TR Far East Income Trust, Mermaid House, 2, Puddle Dock, EC., 12.30.
Wardle Storeys, Brantham Works, Brantham, Manningtree, Essex, 9.30.
BOARD MEETINGS
Finals;
API Group
Doctus
Eurocopy
Grainger Trust
Greenall Whitley
Hoskyns
Johnson & Firth Brown
Stakis
Interims;
Eve
Moorgate Investment Trust
NMC Group
Sterling Publishing
TR Technology
■ FRIDAY
DECEMBER 14
COMPANY MEETINGS
Fisher (A), Forte Suite, The Excelsior Hotel, Bath Rd., Drayton, Middlesex, 12.00.
McKechnie, Metropole Hotel, Birmingham, 12.00.
Prestwick Holdings, Station Hotel, Ayr, 11.30.
Wolseley, Vines Lane, Droitwich, Worcestershire, 2.30.
BOARD MEETINGS
Finals;
McCarthy & Stone
Strata Investments
Sycamore Holdings
Interims;
Booth Industries
Bristol Evening Post
Broad Street
Harris (Phillip)
Ivory & Sime
Micrelec
Miskin
Welsh Water

Company meetings are annual general meetings unless otherwise stated.

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Allied Signal 45cts
Anheuser-Busch 25cts
Arab Banking Fltg Rate Nts 2000 $438.81
BankAmerica 25cts
British Dredging 2.6p
Chase Manhattan Fltg Rate Nts 2009 $208.96
Chevron 77.5cts
Dai-Ichi Kango Bank Y4.25
Dun & Bradstreet 53cts
Exxon 67cts
Fuji Bank Y4.75
General Motors 75cts
Grace (WR) 35cts
Halifax Building Society 6% Nts 1994 3pc
Hammerson Property Inv & Dev 3.5p
Do. Lim Vtg 3.5p
Honda Motor Y7
Hongkong & Shanghai Banking Prim Cap Und FRN Sec Ser $103.48
Houston Industries 74cts
London Atlantic Investment Trust 0.72p
Mitsubishi Bank Y4.75
Mitsubishi Electric Y4.5
Mobil 72.5cts
Prowting 1.7p
Rockwell International 21.5cts
Saitama Bank Y3.5
Sanwa Bank Y4.25
Scott Paper 20cts
Sears 1.525p
Sec. Trust Of Scotland 1.02p
Spirax-Sarco Engineering 2.7p
Sun Co 45cts
Tarmac 3p
Texaco 80cts
Time Warner 25cts
Tokai Bank Y4.25
Toray Industries Y35
Toshiba Y5
Travellers 40cts
Treasury 8% Stock 1991 4pc
USX 35cts
United Technologies 45cts
Usher-Walker 3.5p
Warner-Lambert 38cts
Woolwich Building Society Fltg Rate Nts 1994 £375.53
■ TOMORROW
Barclays Bank 13¼% Nts 1992 6.625pc
Coles Myer 16cts
Greenacre Group 0.1p
Hewden-Stuart 0.825p
Hunting 4p
Lloyds Bank Prim Cap Und Fltg Rate Nts $441.61
London & St Lawrence Investment 2.7
Tenneco 80cts
Treasury 3% Stock 1992 1.5pc
■ WEDNESDAY DECEMBER 12
Allied Irish Banks Ir3.5p
Do. Fltg Rate Nts 1995 $432.06
Banco Latinoamericano De Export Fltg Rate Nts 1991 $463.85
Bank Of Scotland 2p
Eaton Finance 12½% Uns Loan Stk 2014 6.25pc
Exchequer 12% Stock 2013/17 6pc
FR Group 2.23p
First Interstate Overseas Gtd Fltg Rate Subord Nts 1995 $205.38
Glynwed International 4.15p
Govett American Endeavour Fund 9.15cts
Johnston Group 4.6p
Monsanto 48.5cts
RBC Canadian Fund Ptg Red Prf 11cts
Royal Bank Of Canada Fltg Rate Deb Nts 2085 $208.54
Sotheby's Holdings Shs Of Class A Ltd Vtg Com Stk 15cts
TDK Y21
Thorn EMI 7% Cnv Red 2nd Cum Prf 3.5pc
■ THURSDAY DECEMBER 13
Bankers Trust New York Fltg Rate Subord Nts 2000 $206.96
Kalamazoo 1p
Mercury Asset Management 5p
Midland Bank Und Fltg Rate Prim Cap Nts (Sers 3) $430.81
Office & Electronic Machines 0.1p
Portsmouth Water 1.35p
Do. A Non-Vtg 1.35p
Royal Bank Of Scotland Und FR Prim Cap (Min 5%) Nts $435.26
St James's Place Capital 1.5p
Warburg (SG) 4.5p
Wells Fargo Fltg Rate Subord Nts 1994 $206.96
■ FRIDAY DECEMBER 14
Agricultural Mortgage 10¼% Deb Stk 92/95 5.125pc
Bank Of Ireland Ir4p
Bank Of Montreal 9% Nts 1991 4.5pc
Bank Of Tokyo (Curacao) Gtd Fltg Rate Nts Dec 1991 $217.63
Banque National De Paris Subord Fltg Rate Ser Nts 1994 £377.59
Barlows 0.825p
Bowthorpe 1.62p
Bracken Mines 25cts
British-Borneo Petrol Syndicate 5p
CBX 35cts
CalFed 3cts
Cambridge Group 0.4p
Canadian Overseas Pack Industries 45cts
Citicorp Overseas Finance Gtd Fltg Rate Nts 1994 $21.17
Conversion 9½% Stk 2002 4.75pc
Cummins Engine 55cts
Dana 40cts
Densitron International 0.7p
ECC Group 13p
East Rand Gold & Uranium 35cts
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■ SATURDAY DECEMBER 15
AECI 5½% Cum Prf 5.5cts
Astec (BSR) 5½% Uns Ln Stk 86/90 2.75p
Caisse National Des Autoroutes 16% Gtd Ln Stk 2006 8pc
Coles Myer Finance 65m 8.75% 21/11/94 4.375pc
Do. $10m 9.38% 22/2/94 4.69pc
Development 12¼% Stk 2000/03 6.125pc
Guardian Royal Exchange Assurance 7% Uns Ln Stk 86/91 3.5pc
Guildhouse Group 8.5p (Net) Cnv Cum Red Prf 2006 4.25p
Investors Capital Trust 5¼% Cum Prf Stk 1.8375p
King & Shaxson Holdings 2.5p
Do. 5% Cum 2nd Prf 1.75p
Do. Cum Ptg Prf 1.75p
National 7% Ln 87/92 3.5pc
Pennzoil 75cts
St Lawrence & Ottowa Railway 4% Stg 1st Mtg Bds 2pc
TRW 45cts
United Biscuits (Holdings) 8% Deb Stk 93/98 4pc

PARLIAMENTARY DIARY

■ MONDAY
Commons: Energy questions. Road Traffic Bill, second reading. Private Business - King's Cross Bill.
Lords: not sitting.
Select committees: Public accounts – subject, homelessness. Witnesses: Sir T. Heiser KCB and Mr O.A. Edmonds (Room 15, 4.30pm).

■ TOMORROW
Commons: Employment questions. Questions to the Prime Minister. Debate on Gulf crisis.
Lords: Census (Confidentiality) Bill, third reading. Statutory Sick Pay Bill, second reading. Debate on vocational training and retraining. Crime of Vagrancy (Abolition) Bill: second reading. Debate on request to the Government to provide indoor-outdoor wheelchairs for the most severely disabled.
Select committee: Foreign Affairs – subject, southern Africa. Witness: Commonwealth Secretary General (Room 15, 4.15pm).

■ WEDNESDAY
Commons: Environment questions. Opposition-led debate on the recession. Debates on EC documents relating to non-standard employment and a research and development programme on information technology.
Lords: Debate on custodial and non-custodial sentences. Debate on the movement of professional engineers within the EC.
Select committees: Energy – subject, energy efficiency. Witness: Mr John Wakeham, Energy Secretary (Room 8, 10.0am).
Environment – subject, indoor pollution. Witness: Dr Denis Henshaw, University of Bristol (Room 15, 10.30am).
Foreign Affairs – subject, southern Africa. Witness: South African Foundation (Room 13, 10.30am).
Welsh Affairs – subject, future of opencast coal mining in Wales. Witnesses: Welsh Office officials (Room 16, 10.30am).
Agriculture – subject, animals in transit. Witnesses: British Airways; Road Haulage Association; British Rail; UK Farmers Union (Room 6, 10.45am).
Trade and Industry – subject, British Steel. Ravenscraig and Clydesdale works. Witness: Mr Ian Lang, Scottish Secretary (Room 15, 4.0pm).
Employment – subject, Health and Safety Commission and Executive. Witness: Officials from the HSE (Room 20, 4.15pm).
Public accounts – subject, sale of the National Bus Company. Witness: Sir Alan Bailey (4.15pm, Room 16).

■ THURSDAY
Commons: Home Office questions. Questions to the Prime Minister. Estimates Day (first part), including a debate on Department of Trade and Industry funds, in relation to investigations under the Companies Act and the Financial Services Act. Government-led debate on fisheries. Civil and defence votes on account and the outstanding winter supplementary estimates.
Lords: British Railways (No.3) Bill third reading. Maintenance Enforcement Bill, committee stage. Namibia Bill, committee stage. Development Board for Rural Wales Bill, second reading. Debate on Police and Criminal Evidence Act order. Debate on the Misuse of Drugs Act order. Debate on the Government's war aims if hostilities broke out in the Gulf.

■ FRIDAY
Commons: Debate on Government progress in assisting economic reform and addressing environment and population issues in the developing world.
Lords: not sitting.

APPOINTMENTS

Low and Bonar shake-up

■ LOW AND BONAR, Dundee-based plastics and packaging company, has announced a shake-up of its senior management structure with the aim of strengthening its international operations, *writes John Thornhill.*

The group's activities will now be organised into two geographical zones rather than three product divisions.

Mr Walter Telfer, previously deputy chief executive and finance director, has taken over responsibility for international operations, which include Low and Bonar's North American interests, and other activities outside Europe.

Mr Jim Leng, a main board director, has assumed responsibility for the group's European activities.

Mr Garth McKenzie is retiring as president of Bonar Inc, the group's 79 per cent-owned Toronto holding company and Mr Newlyn Jones, previously chief executive of the specialist textiles division, will leave the group.

Mr Norman McLeod, formerly deputy finance director, will join the board as group finance director.

Stock Exchange lay member

■ Mr Paul S. Lewis, group finance director, Tate & Lyle, has been appointed a lay member on the council of the INTERNATIONAL STOCK EXCHANGE. He replaces Mr Clive Strowger of the Mountleigh Group who has stepped down after 15 months' service.

■ CGC INTERNATIONAL GROUP, Crawley, has appointed Mr E.G. Vassar as non-executive chairman. He recently retired as a Lovell Group director.

Moves at Risk Management

■ Mr William F. Sennett, managing director of European Risk Management, Weybridge, and group vice president of the parent company, INTERNATIONAL RISK MANAGEMENT GROUP, Bermuda, is retiring from executive duties from January 1, when he will be appointed deputy chairman of European Risk Management. He will continue as a member of the group's supervisory board of management as consultant, and will remain on the boards of the group's associated companies in Finland and France. Mr Robert L. Brown, a director of European Risk Management, becomes director and general manager from January 1, and Mr John A. Makinson is appointed marketing director, Europe, from the same date.

Eaton Truck senior posts

■ Eaton Truck Components - Europe has appointed Mr Alan E. Best to the new post of managing director, truck components - Europe. Mr Best, who was managing director - operations, will be responsible for all European manufacturing, product engineering and business development activities. Mr Joaquin J. Zuza, who was manager of axle operations - Europe, has been appointed director - truck components operations - Europe. Both Mr Best and Mr Zuza will be based at European headquarters, Hounslow, Middlesex. The holding company is EATON CORPORATION, Cleveland, Ohio.

Mr Richard Lowish *(pictured)* has been appointed general manager of ENGELHARD METALS where he will be responsible for all aspects of precious metals trading in the UK. He was managing director, Bank of Boston, London.

■ From today Mr Brian Horwits, circulation director of NEWS INTERNATIONAL NEWSPAPERS, becomes general manager. He is succeeded by Mr John East, previously assistant to the general manager. Mr James Neil is made managing director of News International Newspapers (Scotland).

■ LEONARD CURTIS & CO, independent insolvency specialists, has appointed Mr Jonathan Schapira as a partner from January 1. He joins from Pannell Kerr Foster where he was the partner leading the London office insolvency department.

Changes at Chase Manhattan Bank

■ THE CHASE MANHATTAN BANK has appointed Mr Dennis M. Goggin, senior vice president, as general manager, corporate finance, UK, succeeding Mr Chris Mation, senior vice president, who is returning to New York to a new post as InfoServ major accounts executive. Mr Goggin has been general manager for the bank in Hong Kong since 1987, and has previously worked in London as head of the bank's institutional division.

Mr Tony Gill *(pictured)*, chairman and chief executive of Lucas Industries, has been appointed a non-executive director of NATIONAL POWER, the UK's largest electricity generating company. Mr Gill is also a non-executive director of the Post Office Board, a member of the advisory council on science and technology, the Engineering Council, the council of the Institute of Mechanical Engineering, and vice president of the Engineering Employers Federation.

■ Mr David Chandler has joined THE SANWA BANK, London branch, as deputy general manager and head of syndications. He was senior director of corporate finance at Continental Bank.

هكذا من الاصل

ARCHITECTURE

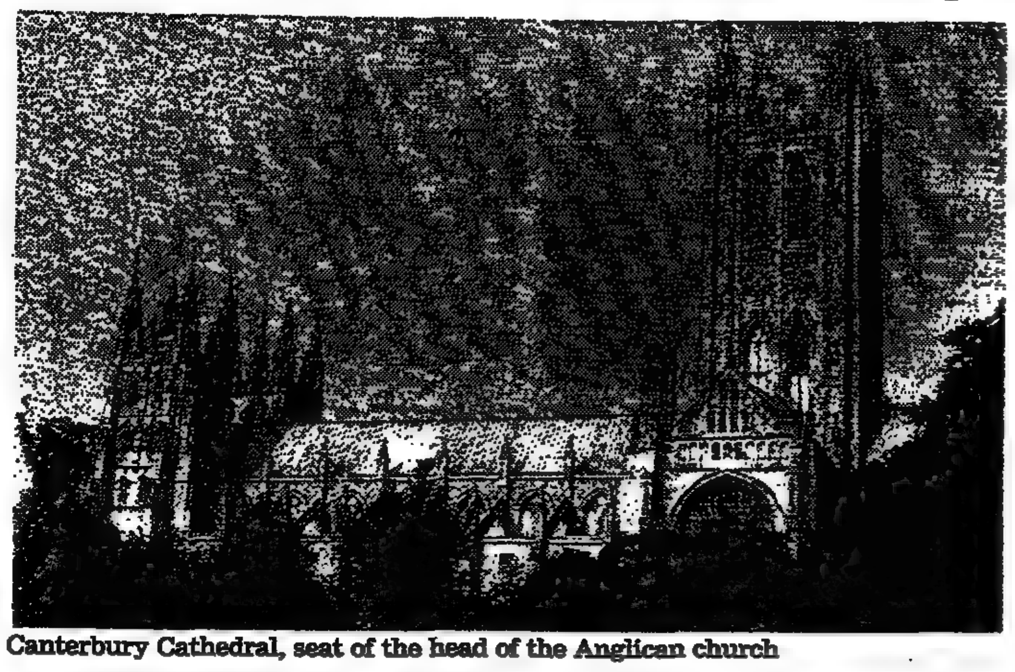
Why not a cathedral for all faiths?

Colin Amery on an organisation devoted to non-denominational places of worship

It was Cardinal Newman who said that "material edifices are no part of religion". He did go on to observe that it is difficult to hold religious observances without them. In some ways the Church of England must be feeling the same way – it has demolished some 500 churches and made another 1500 redundant since 1958. However, enough has been written about the difficulties of propping up the fabric of the church; perhaps with Christianity's most sacred season upon us it is timely to consider the whole question of religious architecture.

These thoughts are prompted by two things. First of all by the former Dean of Peterhouse, Edward Norman's, new book, *The House of God: Church Architecture, Style and History* (Thames and Hudson, £28) and by a meeting I had a while ago with Robin Waterfield, the Chairman of the Deventer Project. Although Dr Norman is a practising Anglican clergyman and Mr Waterfield is not, they both seem to share the view that there is a diminishing interest in strictly denominational religious buildings and a more general desire abroad for places of contemplation of the Divine.

Dr Edward Norman's book does a thorough job as a survey of Christian places of worship and assembly. He also provides a useful definition of churches as "the material evidence of a reality which is invisibly present." His book is not a piece of turgid architectural history but an account, as one might expect from a former Peterhouse man, that explains the roles of elites in successfully promoting particular styles of ecclesiastical architecture. It is more than that because it also increases the reader's awareness of the emotional weight that religious buildings inevitably carry.



Canterbury Cathedral, seat of the head of the Anglican church

The orthodox Christian view of the world is that it somehow represents in its own order the Divine view of things. But the very first Christian buildings were also very much dedicated to the cult of a person – albeit a person who was the incarnation of God. Early traces of Christian worship indicate places associated with the life of Christ, around his supposed tomb for example, and simple places decorated with early symbols. The transformation of pagan temples into Christian ones suggests the power of the faith and the mutability of architectural form. The cathedral at Syracuse, for instance, is built inside a Doric temple of the Fifth century B.C. The switch from the worship of Athena to the worship of Christ is in its way miraculous; but most remarkable perhaps is the perpetuation of the sacred quality of a site. In Rome too, there are endless examples of one place of worship growing up on the remains of another, layers of faith cemented by something intangible.

Some of the photographs in this book convey vividly the sense of religious atmosphere in churches and cathedrals of Europe. The author achieves this by his selection of paintings. By choosing artists to interpret sacred places it is possible to convey atmosphere in a way denied to the camera. The painting of the interior of Saint Mark's in Venice, with its swinging red banner, or the 19th century picture of the ceremonies surrounding the biennial liquefaction of the blood of Saint Januarius in Naples, both evoke powerfully the glory of ceremonial which may be a foretaste of eternity. Similarly Piranesi in Rome conveys both the pagan and sacred sense of the Emperor Hadrian's Pantheon.

But the story of *The House of God* is one that questions many of the powerful human manifestations of church architecture. Dr Norman explains, for instance, the rise of the "house" church, today's emphasis on the community rather than the church building. But in his search to define the nature of sacred places, he does not extend far outside the Christian tradition. What is the kind of architecture that is needed for people who have a sense of the numinous – a need for God – but do not subscribe to any of the established dogmas or denominations?

The Deventer Project is an organisation devoted to the idea of creating buildings that will be intended for the practice of prayer, meditation and contemplation. These places will be completely non-denominational and dedicated to the search for a unified sense of religious experience that holds it to be self-evident that all manifestations of God are part of the same unity.

The title of the project comes from the name of the original home of the 14th century Brothers and Sisters of the Common Life. Thomas à Kempis was a monk of that order and its work was to seek the spread of religious knowledge on a world scale. The 20th century version of that idea proposes a series of buildings, throughout the world, all to a common design – a hall surrounded by small rooms – that will be recognisably sacred but without denominational loyalties. It is difficult for a universal project like this to acquire a charitable status in Britain because it does not appear to have specific aims or doctrines.

Why build more buildings at all? It is clearly not possible for something deliberately undenominational to shelter under the roof of premises belonging to a known proselytising sect. But what is wrong with a sacred grove, or the pavement? There is inevitably a vagueness about this project; but it is a benevolent vagueness. The millennium would seem to offer a timely moment to build something like a cathedral for all faiths.

The two thousand years of history Dr Norman explores show what a weight of stone we have already laid upon the earth in our quest for places that aspire to the transcendent. Man needs to build beyond his immediate needs; in the 20th century too few reminders of eternity have been built.

(Robin Waterfield, Chairman of the Deventer Project, may be contacted at 2 Gondar Mansions, Mill Lane, London NW6.)

A Streetcar Named Desire

THEATRE ROYAL, GLASGOW

AS A LATE fanfare in Glasgow's European City of Culture year, the Stuttgart Ballet presented four performances at the Theatre Royal last week. Interest inevitably centred upon the British premiere on Friday of John Neumeier's *A Streetcar Named Desire*, whose eponymous vehicle is intended for Marcia Haydée so that she may ride in stellar triumph as Blanche Dubois. Since I have always thought the play, and the character of Blanche, exquisitely tiresome and over-wrought, I am not the ideal commentator upon this event. But I record that Neumeier's procedure has been to expand Tennessee Williams' drama so that we see Blanche's early life and learn from it - from her disastrous marriage, from her family surroundings - some of the reasons for her pitiable state when she arrives at her sister Stella's home as the play begins.

The production offers constant shifts between present and past, between conflicts of memory and flights from psychic hurt, which form an allusive means of comprehending Blanche's motives and her tragedy. So, while we are yet watching her early marriage, we are made aware of later promiscuity through a group of men at the side of the stage who represent the passing trade she knew at the Flamingo Hotel. And haunting everything, an omnipresent property, is the bed on which we initially see her in an asylum, before flash-backs start to unfold her story.

Neumeier's first act presents us with the customary trappings of Southern decline: the ball with girls in long dresses; the chandelier and the Greek columns of the ante-bellum house, and the horde of elderly relations in black. All very picturesque - and no less cliche-ridden than the seedy hotel where our heroine soon Goes To The Bad. Through such scenes Marcia Haydée moves like a ghost, a creature in pale clothes, pallidly made-up. Haydée is admirably sensitive in means, touching the dance and the story with nervously probing intelligence. A problem resides, though, in Neumeier's choice of score - the Prokofiev *Visions Fugitives*, whose title alone is apt.

Neumeier's second act becomes an elision and commentary upon the play itself. The stage is dominated by Richard Cragun's impersonation of Stanley, a stunning assumption of brutish virility by an artist whose every movement speaks of Neanderthal temperament marvellously delineated.

Blanche's fluttering genteelisms, her hunger for innocence, are, in Marcia Haydée's performance, truly pathetic fantasies , and nowhere more so than in the relationship with Vladimir Klos' admirably sensitive Mitch.

This *Streetcar* suffers, I suspect, from its need to make too-literal choreographic sense of Blanche's setting as well as of her personality. Neumeier has inspired three exceptional interpretations - from Haydée, Cragun, Klos - but we comprehend them best through the play's resonances rather than through the dance.

Clement Crisp

Vladimir Klos and Marcia Haydée in John Neumeier's A Streetcar Named Desire

Tectonic Plates

COTTESLOE THEATRE

This is a show for people prepared to be splashed – literally, with water from the huge sunken pool that holds centre-stage in the diminutive Cottesloe, and metaphorically, by the wave upon wave of imagery that flows from the extraordinary mind of Robert Lepage.

Already something of a cult figure in London, through his previous shows *The Dragon Trilogy* and *Polygraph*, this French Canadian director and performer goes a step further this time, by reconstructing his epic *Tectonic Plates* with input from a Scottish cast which is reflected in a threading of Scottish mythology.

It arrives at the National for a limited number of performances after premiering in Glasgow, an audacious and stimulating piece of programming, however many reservations one may have.

Continuing his penchant for obscure titles, Lepage has named his show after the continental plates of the earth, the shifting and erupting of which he sees as symbolic of the human condition. This is neatly illustrated in an early scene in which two grand pianos are wheeled together and rotated, one topped by a model of the Statue of Liberty, the other by the Eiffel Tower.

The piano motif continues in a show set variously in Paris, Venice, New York and, perversely, Halifax; in the 19th century of Chopin and the 20th century of the 'Doors' lead singer Jim Morrison who, we learn, are neighbours in a Parisian cemetery.

What Lepage excels at is creating multi-dimensional, multi-media collages, full of transitory reflections and resonances. In this case a Venice in Peril auctioneer sells off a Delacroix painting of George Sand, one half of a double portrait with her lover, Chopin, sending us off on two apparently disparate trails.

One involves love, musical genius and cross-dressing (theirs, his and hers respectively); the other cuts sideways through the Delacroix archives to his painting of the drowned Ophelia, magically conjured with slide projections on to a white muslin shroud dragged across the surface of the pool.

The two lines are bridged by the show's obsession with life, death and sexual politics: Ophelia, like her modern counterpart, a fey young heroin addict, commits graceful suicide; Chopin and Sand are torn apart. Somewhere in their midst lurks the Caledonian goddess Skadi, sword-wielding cutter-off of testicles, who personifies nature and man's fear of it.

The picture-making is beautiful, often funny and always surprising, with a profligacy of invention that leaves one gasping.

One minute, sundry art collectors are sitting in a Venetian auction knee-deep in water, the next we are scudding down canals on a gondola fashioned from the ubiquitous pianos.

But as with *Polygraph*, his metaphysical detective story named after a lie detector, the problems begin when one begins to look beyond the imagery for the substance. Rather surprisingly for someone who deals in such technical complexities, Lepage's texts seem almost banal, steering an erratic course between a naive psychology of human relationships and a pretentious extrapolation to their environmental and spiritual causes and effects. Supreme theatrical wizard he may be, sage he is not. At the risk of being accused of sacrilege by performance devotees, I admit I would queue for miles to see him tackle *Hamlet*.

Claire Armitstead

Out of the East

QUEEN ELIZABETH HALL

At the centre of Matrix's stimulating, well-devised programme on Friday was a new song-cycle of knife-twisting power. The composer Dominic Muldowney and the poet James Fenton have collaborated on a chain of bittersweet songs in what might summarily, and crudely, be described as Weill-Brecht vein, for two singers, of "chansonnier" rather than Lieder or operatic type, and small instrumental ensemble. They add up to an important new vision of war-horror.

It is war in general, but also war in particular – 20th-century, high-tech (with casual, chilling references to napalm and river-mines), and sited in south-east Asia, mainly in Vietnam. Fenton's gift for writing words of wry, plain eloquence that crave musical setting seems here to equal Auden's; he has avoided easy irony, facile breast-beating. Each of the four songs, and also the introduction, *Blood and Lead*, that returns as the cycle's farewell, contains its sting within tightly disciplined closed forms. Popular song, in all senses, lies behind both the text and the musical setting.

Muldowney's music directorship at the Royal National Theatre has obviously distilled his natural communicative lyricism to a fine, potent brew. Each of the songs strikes its style – whether large-scale and multi-paragraph (the first, *Out of the East*) or patter-comic-fast in music-hall vein (the last, *Here come the Drum Majorettes!*) – with dazzling speed and accuracy.

The sheer concentration of the cycle recalls the best of Weill, Eisler, and Henze in *Voices* vein. Altogether, *Out of the East* is an important addition to the literature. It was quite brilliantly delivered, in a light and precise staging, by Robyn Archer and Richard Walsh; the ensemble under Robert Ziegler was counterpointed by Muldowney himself at the piano. It needs to be recorded, on disc and for television, with the same performers: I'm hungry to explore it again.

The whole programme deserves further dissemination: to open, the tenor Damon Evans and pianist Joanna McGregor, joined at midpoint by the mezzo Patricia Bardon, giving an overheated but nevertheless deeply felt Janacek *Diary of One Who Disappeared*, in Rodney Blumer's superb translation; to close, a tight, hard-edged account of the Weill-Brecht *Mahagonny Songspiel*.

Max Loppert

Anne Sofie von Otter

WIGMORE HALL

SINGING Scandinavian songs *Lieder*, in fact, but I don't know what Scandinavians call those – and Brahms on Saturday, Miss von Otter met her own best standards. That is high praise, for as a performing musician she has been living a charmed life for some time now.

She wields her true, lovely mezzo – strong dramatic top, and a full-bodied low register too – with unforced confidence and acute intelligence, exactly matched by her platform-*persona*. No airs, and a minimum of acting-out; but all the communicative urgency one could want, and easy poise with it, and glints of mischief too.

She is a gem, as was somehow emphasised by her deeply Swedish costume for the occasion. (In rich material, with big, sharp lapels over a straight bodice, and then trim half-sleeves billowing toward the elbows; the Swedes are more mysterious than their popular image has ever recognised). She also had an uncommonly bright, non-routine partner in Bengt Forsberg, who found more striking ideas in the Brahms piano-parts than you would hear in a dozen *Liederabende*.

His suddenly choked pedals – the better to expose some telling piano-line – sometimes jarred Brahms's deliberate smoothness and sonority, and in "Standchen" UMLT'a' and several of the *Zigeunerlieder* I thought his amusing rhythmic tricks overstepped the bounds of the idiom by some way.

Yet it is a rare pianist who can disclose so much unsuspected muscle in these accompaniments, and it was a welcome lesson.

In the Scandinavian songs – Grieg, Sibelius and the obscure Sigurd von Koch – Forsberg was wholly persuasive.

In the third of the 1916 "Chinese Poems" of von Koch – evidently a civilised late-Romantic artist of many parts – he blew up a terrific storm which kept perfect balance with the voice.

In their Sibelius group, mostly familiar and all in Swedish, they gave a fresh, immediate edge to every song, even the over-familiar, period-sentimental "Maiden's Tryst". (I can't pretend to any proper sense of the language, but my exacting Finnish guest declared herself well satisfied despite the absence of any Sibelius song in Finn).

The usual Grieg "Waterlily" was refreshed by a dewy twinkle; in the middle of his fine, ripe soliloquy "From Monte Pincio" they rushed their fences too hard, at some cost to its elevated breadth.

The second-last of their delectable encores, somebody's clever setting of the moral tale about "keeping hold of Nurse/ *for fear of* getting something worse", allowed Forsberg (declaiming from the keyboard) and Miss von Otter to display a nice appreciation of classbound Brit-speak.

David Murray

ARTS GUIDE

December 7-13

MUSIC AND OPERA

London

Chamber Orchestra of Europe, directed by Paavo Berglund, play Haydn and Sibelius (Mon). Barbican Hall.
City of Birmingham Orchestra conducted by Simon Rattle perform Mozart and Ravel (Wed).
London Symphony Orchestra conducted by Sir Colin Davis perform Mozart (Thur).
Royal Opera, Covent Garden. A new production by Adolf Dresen of *Fidelio* conducted by Christoph von Dohnanyi.
English National Opera, Coliseum. *Cosi fan tutte*, in John Cox's stylish 1980 production, returns with a new cast and Peter Robinson as conductor. Further performances of the new double bill – Delius's *Fennimore and Gerda*, Puccini's *Gianni Schicchi* are conducted by Charles Mackerras.

Paris

Katia Ricciarelli. Vivaldi, Handel, Gluck, Cherubini, Donizetti (Tue). Bastille Opéra (40011616).
Noel Lee-Christian Ivaldi, piano. Schubert, Debussy, Stravinsky (Mon). Salle Gaveau (49530507).
Gheorghe Zamfir, *Pan's Flute* with the Oratorio's choir and French orchestra, Versailles polyphonic ensemble, Francis Poulenc choir conducted by Jean-Pierre Lore: Bach, Bartok, Zamfir (Mon). Salle Pleyel(45638873).
Ensemble Intercontemporain, Ensemble Moderne conducted by Peter Eotvos, Zoltan Kocsis, piano, Miklos Perenyi, cello, BBC singers: Kurtag, Berio (Tue). Théâtre des Champs Elysees. (47203637).
Ensemble Orchestral de Paris conducted by Armin Jordan, Raphael Oleg, violin: Mozart, Beethoven (Tue). Salle Pleyel (45638873).
Paul Badura-Skoda recital (Tue). Salle Gaveau (49530507).
Orchestre de Paris conducted by Semyon Bychkov, Jean-Philippe Collard, piano: Bizet, Saint-Saens, Dutilleux, Ravel (Wed. Thur). Salle Pleyel (45638873).
Orchestre National de France conducted by Karl Anton Rickenbacher: Mendelssohn, Ives, Beethoven (Thur). Théâtre des Champs Elysees (47203637).
Les Arts Florissants conducted by William Christie: Marc-Antoine Charpentier (Thur). Auditorium des Halles (40282840).
Josef Nadj and his Théâtre jel come with a surrealistic premiere of *Comedia Tempio*. Théâtre de La Ville (42742277).
Choreography by Balanchine, Lubovitch, Garnier, Kylian to music by Stravinsky, Pacher and Janáček. Opéra Palais Garnier (47425371).
Otello. The strike-plagued production is followed by *Figaro's Hochzeit* conducted by Gabriele Ferro. Bastille Opéra (40011616).

Antwerp

Collegium Aureum and Tolzer Knabenchor conducted by Gerhard Schmidt-Gaden. Bach's Christmas Oratorio (Thur).
De Singel. Monnaie Opera in *Mefistofele* by Arrigo Boito (concert version), conducted by Emil Tchakarov with Jose van Dam, Wieslaw Ochman, Margaret Jane Wray, Elzbieta Ardam, Franco Careccia (03-248.38 00).

Brussels

Wiener Kammer Philharmonie conducted by Claudius Traunfellner with Bettina Gradinger (violin), Wolfgang Redik (violin). Bach, Mendelssohn, Rossini, Schoenberg (Tue). Maison de la Radio (649 09 14).
Koninklijke Vlaamse Opera. Royal Flanders Opera in *Van Gogh, Un Malheureux vetu de noir* by Jan van Vlijmen, conducted by Reinbert de Leeuw, staged by Axel Manthey, with David Pittman-Jennings, Guy de Mey, Stella Kleindienst, Wout Oosterkamp and the Schoenberg Ensemble (03-233 66 65).

Amsterdam

Muziektheater. Netherlands Opera in a co-production with the English National Opera of Verdi's *Un Ballo in Maschera*, directed by David Alden. The Netherlands Philharmonic is conducted by Michael Hálasz and the cast includes Liuba Kazarnovskaya and Emil Ivanov.
The National Ballet presents *Swan Lake* choreographed by Van Dantzig and Van Schayk after Petipa/Ivanov (255 455).

Rome

James Furst conducting Fauré, Lalo and Bruckner (Mon, Tue). Auditorium in Via Della Conciliazione(6541044).
Nuovo Quartetto di Roma play Fauré and Brahms (Thur). Oratorio del Gonfalone (6875952).

Madrid

Renata Scotto (soprano), Vincenzo Scalera (piano). Gluck, Rossini, Verdi, Puccini (Wed). Auditorio Nacional de Musica (337 01 00).
Joaquin Soriano (piano). Mozart, Schumann, Rachmaninov, Scriabin (Thur). Auditorio Nacional de Musica (337 01 00).

Barcelona

Klara Takacs (mezzo-soprano), accompanied by Miklos Harazdy (piano). R. Strauss, Wagner, Schumann (Mon). Palau de la Musica Catalana. (301 11 04).

New York

Canadian Brass. Christmas programme (Tue). Carnegie Hall (247 7400).
Boston Symphony Orchestra conducted by Seiji Ozawa with Peter Serkin (piano). Verdi, Schoenberg, Beethoven (Wed). Carnegie Hall (247 7400).
New York Philharmonic conducted by Samuel Wong with Vladimir Feltsman (piano). Schnittke, Rachmaninoff, Shostakovich (Thur). Avery Fisher Hall. Lincoln Center (874 6770).

Washington

Chamber Music Society of Lincoln Center directed by Fred Sherry. Schubert, Brahms, Mendelssohn (Wed). Concert Hall, Kennedy Center (467 4600).
National Symphony conducted by John Eliot Gardiner with Joshua Bell (violin). Chambrier, Schumann (Tue). Concert Hall, Kennedy Center (467 4600).

Chicago

Chicago Symphony Orchestra conducted by Erich Leinsdorf. Stravinsky, Prokofiev (Thur). Orchestra Hall (435 8122).

Olaf Baer

WIGMORE HALL

The Wigmore Hall narrowly avoided having two dark nights last week. The hall had long ago sold out for the two recitals by Brigitte Fassbaender and it was a disappointment when she was forced to withdraw at the eleventh hour through illness. It was too late to find a replacement for Tuesday; but on Friday, Olaf Baer stepped in to give an all-Brahms programme. It was the baritone's first London recital in over a year.

At the Proms in the summer Baer had been on less than his best form and had some trouble getting his voice to carry. The Wigmore Hall, though, is a friendlier venue and one in which he evidently feels at home. With his soft-grained voice, this singer will never command by might alone, but here he is able to work within his natural range, supported and only occasionally overpowered by his regular accompanist, Geoffrey Parsons.

It is difficult to think of any songs that suit him better than Brahms's *Deutsche Volkslieder*. Unlike some of his peers, Baer does not invite accusations of "arty" interpretation. He is engaging in narrative, entirely at his ease in the homely affection of "*Da unten im Tale*", and lyrical, warm, mellifluous in quiet songs like "*All' mein' Gedanken*" – at least until the voice loses its focus, which it does a little too often.

Where Brahms aims higher, he is as yet less successful. The Four Serious Songs, in particular, were given a partial, incomplete reading. While the songs are dealing with death the comforter, Baer is as satisfying as anybody. But as soon as he has to get to grips with difficult music, fighting its way through suffering and bitterness to achieve a sense of stoic resolution, the performance started to feel soft at the edges.

The audience had a more comfortable evening than they could have anticipated. Fassbaender and Baer are at the opposite poles of Lieder singing. She is a one-off, disturbing, challenging, ungainly, determined to say new and difficult things; he is the inheritor of tradition, an idiomatic and appealing artist, who asks to be judged by how well he retells what we know already. How many in the audience, I wonder, follow them both?

Richard Fairman

Soho Poly

Burning Patience by Chilean playwright Antonio Skármeta is the last full production at the Soho Poly Theatre before its lease expires next month. The production runs until Saturday.

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Superpower that said 'no'

AS EXPECTED, the supposedly final ministerial meeting of the four-year Uruguay round of international trade negotiations came to its climax in Brussels last week and duly foundered upon the rock of European Community obduracy. The EC will protest at this version of events. But it will protest in vain. Many are called to take responsibility for what happened, but the EC is chosen. It is now up to its leaders – above all to Chancellor Helmut Kohl of Germany – to undo that choice.

True, agriculture is, as EC spokesmen insist, not the only difficult issue in the round. Reaching agreement in services, textiles and intellectual property will be far from simple. While there has been movement in all three areas, many obstacles must still be surmounted.

True, too, the EC is not the only superpower that has failed to live up to its responsibilities. The US, for example, has raised expectations, most importantly in Congress, beyond what could be delivered. And if the US has been aggressive, Japan has sought invisibility, happy to hide in the shadows cast by the EC's intransigence.

None the less, agriculture has always been the keystone of the Uruguay Round and the EC alone can put it in its place. After the Montreal mid-term meeting, the EC accepted the obligation to "substantial progressive" reductions in support. Even the EC's most committed supporters would be hard put to it to defend its offer to cut the present exorbitant levels of support by 30 per cent from the 1986 base – and perhaps half of that from now – as meeting this objective.

Specific commitments

The EC should think again and then offer at the least specific commitments on internal support, on barriers to imports and on export subsidies, along with a willingness to discuss extending those cuts throughout the later 1990s. Otherwise, the round will fail. The long-standing call for developing countries and former members of the eastern bloc to liberalise their economies and participate in the international trading system will be revealed as pure hypocrisy, with the EC as hypocrite-in-chief.

The attitude taken by EC spokesmen to this possibility seems to be one of haughty indifference. The EC, as the egregious Mr John Gummer, the UK's minister of agriculture, remarked last week, is the world's leading trading power. It need, he suggested, take no impertinence from the US, merely the world's second most important trader. As for the other participants, the EC seems to regard them as riff-raff, either to be bullied or ignored.

Market disruption

The EC is, indeed, a trading superpower. But what is this treasure of European civilisation that it wishes to use its power to preserve? The "principles" of the Cap to which the EC has so often pledged allegiance are seen by all the world as nothing more exalted than waste, fraud and market disruption.

Is the Cap cheap? No; the total cost to consumers and taxpayers comes to about £700 per household, a sum close to the cost of the hated poll tax for a household of two people. Is the Cap socially progressive? No; with two thirds of the support going to fewer than a third of the farmers, it most benefits large farmers and most harms poorer consumers. Is the Cap politically effective? No; it has left millions of smaller farmers miserable and has given its largest gains to the lucky landowners who bought or inherited before it came into its full glory.

That then is the system that the EC feels it must defend at all costs. That is what being a trading superpower appears to mean to the EC: to be introspective, when it should be outward-looking; to be mean, when it should be generous; to be parochial, when it should be cosmopolitan.

Can this be the sort of role that a reborn Europe wishes to play on the world stage? Only in trade is the EC a superpower, with the power to strengthen, or destroy, the liberal international trading system. It has perhaps a month to decide between its responsibilities and its affection for the Cap. The test has come. The world waits to see how the EC will respond.

Banks and their customers

IF BRITAIN'S bankers ever wonder why they are unpopular, the new draft code of banking practice published last week supplies the answer.

Throughout the document runs the basic assumption of all large bureaucracies: that the real world, with its inconveniences and confusion, must forever take second place to the logical perfection of the institution's own set of procedures.

The internal workings of the bank, not the customers' needs, are the ultimate arbiter. Explaining the way the system works is therefore deemed to be enough to answer any query.

For example: "Many people are confused," says the code's preamble, with an Olympian air of detachment, "as to how the clearing cycle works and the difference between cleared and uncleared balances."

This confusion – which is, implicitly, the customers' own fault – is all the banks offer in response to some strongly-worded criticisms in the Jack report on banking services. That report appeared 22 months ago, followed by a government white paper endorsing many of the Jack committee's recommendations. Last week's code is the leisurely response.

The Jack committee had asked the banks to find ways – on cash machine slips and bank statements – to tell customers how much money they are entitled to withdraw, their "cleared balance".

The bankers reply that this would "complicate rather than simplify matters", and lead to "numerous queries and confusion". Greater confusion surely arises, however, every time a customer has to pay overdraft charges despite a bank statement firmly in the black, because of mistakenly drawing against an uncleared balance.

Card liability

A similar lack of enthusiasm for the Jack committee's proposals is shown in the draft code's approach to the question of liability for the use of plastic cards. A customer's liabilities are strictly limited, in the case of credit cards, by statute. But no such limit applies to "debit" cards, the electronic equivalent of a cheque book.

The draft code offers, at last, some protection. If there is an unauthorised cash withdrawal or payment before the customer has told the bank that a card has been lost or stolen, the customer's liability is limited to £50. So far so good. But in the very next clause, the code undermines the value of the concession. It says: "Customers may be liable for all losses if they have acted fraudulently or negligently".

What is negligence in this context? Few customers could say that they have never done anything with their card or its "pin" number that a bank might regard as negligence: letting someone else use the card in an emergency, for instance, or writing the pin number, in a clumsy code, in the front of a diary.

Customer negligence

If a customer is negligent, in this very broad and sweeping way, he or she is liable for the whole sum of any money withdrawn, before or after notifying the bank about loss or theft.

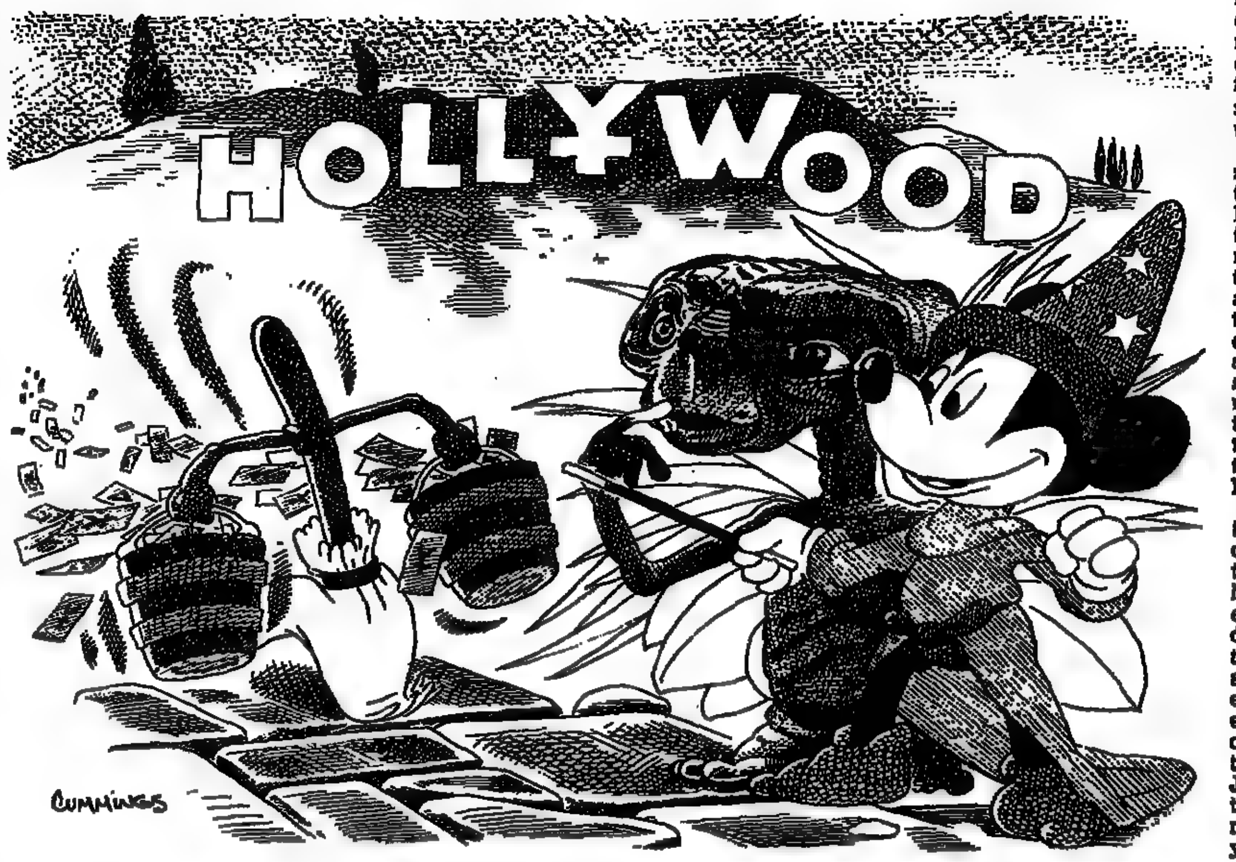
The protection offered on debit cards is thus much less than on credit cards – and, indeed, on paper cheques. This is clearly undesirable: some much more limited definition of negligence is essential.

The code also falls short of customers' reasonable expectations in the area of confidentiality. The banks appear to be determined to preserve the right to give confidential customer information to their investment and other financial subsidiaries for marketing purposes. This is plainly wrong: as a matter of principle customers should be asked to give consent to such a transfer of confidential information.

The code is none the less a step forward, especially when taken together with other moves the banks have made since the Jack report: the introduction of standard, publicly-available fee schedules, for example. Before the draft becomes a final document in the new year, however, the banks and building societies need to show further that they are capable of seeing the issues from the customer's point of view.

Alan Friedman and **Ian Rodger** look at the reasons for – and reactions to – Japanese investment in Hollywood

New money comes to Tinsel Town



Money, as far as Hollywood is concerned, has little colour or nationality. Money is the raw material of movie-making, and lots of it is needed when a single blockbuster can cost up to $50m. Money buys hot properties, scripts, directors, stars and glitzy mansions in the better parts of Beverly Hills and Malibu – but these days it is in short supply.

That is why last month's news of the planned $6.6bn takeover by Japan's Matsushita, of MCA, the entertainment group that owns Universal Pictures, was well received in Hollywood, even if it raised hackles among Japan-bashers in Washington.

The US entertainment industry is the country's second-biggest export earner after aerospace, but four of the seven main Hollywood studios are now in foreign hands. This explains why Matsushita has hired influential lobbyists such as Mr Robert Strauss, the former Democratic party chairman who is also a member of the MCA board, and Mr Jody Powell, former press secretary to President Jimmy Carter, to smooth the way in Washington.

In Hollywood, however, nobody really cares if Mr Rupert Murdoch owns Twentieth Century Fox, or if Sony of Japan owns Columbia Pictures and CBS Records, or if a controversial Italian named Giancarlo Parretti owns the remains of the once-legendary Metro-Goldwyn-Mayer. And if the Japanese are buying Universal, the studio that brought you Jaws and ET, then so be it. Even Disney, MCA/Universal's arch-rival, recently agreed a deal for $600m of Japanese finance to make its films.

Last spring, when Mr Parretti was beginning to stalk Mr Kirk Kerkorian, owner of 80 per cent of MGM/UA, the issue of a foreign "invasion" of Hollywood was on the table. Mr Freddie Fields, a veteran Hollywood producer whose films include American Gigolo and Glory, spoke for most film industry insiders when he ridiculed the xenophobia: "Look," he said, "Sony isn't going to orientalise the movies at Columbia any more than Parretti is going to Italianise them. This is business and the infusion of foreign money is exciting."

Under American law, ownership of US studios by foreign interests is permitted, while the main US broadcast networks are forbidden to buy. However, some of those interests have been influential in barring US programming from foreign markets – a key demand by the US in the Gatt talks has been that other countries drop such restrictions.

There is more than a little irony in the notion that a substantial chunk of US popular culture is now no longer US-owned – and in the fact that it was Hollywood's main power broker, Mr Michael Ovitz, head of Creative Artists Agency, who brought the MCA deal to Matsushita. Mr Ovitz, who also helped broker the Sony-Columbia deal, was hired a year ago by Matsushita to scout for acquisitions. Last August he approached Mr Lew Wasserman, the 77-year-old MCA chairman who helped build the company and whose family has been pressing him to slow down, bow out and think of estate planning. CAA has not disclosed its fee on the transaction, but insiders say Mr Ovitz's firm will earn $60m on the deal.

Different motivations have driven different deals. For Messrs Murdoch and Parretti the desire was to own Hollywood film libraries and production facilities. These would generate revenues by making successful films and farming out rights to a global array of US and foreign theatrical, home video, cable and satellite television and other outlets. Owning copyrighted movies and recording artists can be worth hundreds of millions of dollars if the rights are sold off in pieces around the world.

For Sony and Matsushita, which between them have spent more than $10bn over the past 12 months acquiring Hollywood studios, the prime strategic motivation is not merely to build an integrated worldwide production and media distribution entertainment network based in Hollywood. What they hope to achieve – by gaining control of large libraries of film and music – is to promote and protect sales of the electronics equipment they now make or intend to make.

This strategy is based on the theory that producers of electronics hardware will be best positioned to prosper in future by also owning the "software" (movies and records). It was a factor in the acquisition of EMI by Thorn in 1979: EMI's music and recorded entertainment base could be used as a software feed-in to Thorn's television hardware, a concept now abandoned. Mr David Geffen, the *wunderkind* record and film producer who is MCA's biggest single shareholder and stands to make $700m on the Matsushita deal, calls this Japanese thinking "the Gillette theory – if you're going to make razors, you'd better make blades".

The importance of having control of "software" first became apparent to the Japanese when Matsushita and its commercial allies succeeded in the 1970s in making their VHS standard for home video-cassette recorders (VCRs) more popular than Sony's Betamax. Betamax was technically superior – and is still the worldwide standard for professional video work – but Matsushita early on convinced film rights holders to make VHS versions of their films. Sony was lackadaisical about developing Beta pre-recorded tapes, confident that Beta's technical superiority would be enough to win the day. But consumers tended to buy VHS VCRs because there was more programming available than on Sony's Betamax tapes.

Mr Sidney Sheinberg, MCA president, claims that had Sony owned the Columbia Pictures film library at the time, Betamax would have prevailed. Likewise, in the mid-1980s, Sony, a leading producer of compact disc players, wanted to encourage more people to convert to CDs from records and cassette tapes. With control of CBS Records, which it bought for $2bn in 1987, it could force an important record publisher to accelerate its CD production programme, thus putting pressure on others to follow suit.

Similarly, both Sony and Matsushita will want to use the film libraries they have acquired to promote their video equipment. Their view is that music and films are simply what is needed to maintain and boost sales of machines.

Moreover, the notion of quality tends to arise mainly in a technical sense. Mr Akio Tanii, Matsushita's president, said in a statement last month that digital technology had made possible the reproduction of higher-quality sound and picture. "Excellent software and highly advanced hardware are integrating smoothly," he said.

Mr Sheinberg predictably defends the Japanese strategy, saying that companies such as Sony and Matsushita are fearful of being "frozen out of the market" and do need to have either control of studios or productive relationships with producers of entertainment software. But not all industry insiders agree. Mr Jim Harmon, chairman of Wertheim Schroder, the New York investment bank that specialises in the entertainment sector, is sceptical about "synergies" between hardware and software. He calls the idea "inflated" and predicts that half the current crop of foreign buyers of Hollywood studios "will regret their decisions three to five years from now".

Mr Harmon goes further, however, and points out that cross-border joint ventures are difficult in any industry, and doubly so in the volatile world of entertainment. He argues that the Japanese "have no idea of the difficulty of managing the people, the prima donnas, the limousine and private jet people and the different culture of Hollywood. Even Coca-Cola, a US company, found that its culture didn't mesh with Columbia when it was the owner."

The chief executive of a large US entertainment group, a competitor to MCA, questions what will happen "if three years from now Matsushita has invested a total of $8bn and it isn't working". He predicts that the Japanese "will send one of their men over and put him in an office", and that this could result in the kind of clash of cultures that has emerged at times in the attempt by transplanted German executives to manage the US music and publishing interests bought by the Bertelsmann group. Bertelsmann, unlike the Japanese, has adopted a hands-on approach of direct management of US holdings such as the Doubleday publishing group, and this has led to conflicts.

Mr Sheinberg, who is expected to take over from Mr Wasserman when he retires, claims that talk of Japanese interference in the creative process in Hollywood is "ludicrous". Mr Geffen says that any concerns "really reflect latent racism".

At Columbia Pictures, one executive on the creative side insists there has been absolutely no interference from Sony. And Mr Rupert Murdoch, who has revitalised Twentieth Century Fox and launched a successful television network since buying Fox in 1985, says that foreign ownership of Hollywood doesn't change the nature of the business. "Hollywood," says Mr Murdoch, "was founded by émigrés and it hardly matters if they come from Osaka or Orvieto."

There is, however, simply no way round the fact that Matsushita is a conservative and rather faceless Japanese company with more than $40bn of annual sales and a corporate slogan far removed from the glamour of Tinsel Town: "Human electronics – technology for the benefit of mankind."

What, if any, influence will the Japanese owners in Hollywood exert on the material produced by Americans? If the practices of the Japanese entertainment industry are any guide, the result could be dire. Its key feature is the low prestige and lack of power of all but a few authors and artists. In their place, a handful of companies conceive, produce and rush to market a plethora of mediocre films, songs, singers and television programmes, most of which are discarded, forgotten, within weeks. It may be argued that the same trends are present in the west, but the Japanese seem to have taken them to new extremes.

If the US system of three national television networks has led to lowest common denominator programming, the Japanese system of five networks has led to an even lower level, with endless quiz, freak and talk shows dominating the schedules. Similarly, the Japanese pop music scene moves at bewildering speed, with new singers or "talento", as they are called, emerging at the rate of nearly one a day. Only a tenth of them lasts longer than a few weeks, according to a Japan Phonograph Record Association official. The industry published no fewer than 5,106 new songs last year. "The cycle is becoming shorter, reflecting the faster lifestyles of young people," an official at CBS-Sony says.

One cause for concern is the Japanese preference for avoiding controversy, which may translate into an unwillingness to deal with controversial or difficult subjects. Last Monday, Mr Tanii refused to give assurances that Matsushita would permit the making of films critical of Japanese society. Asked whether Matsushita would allow MCA to make a film about the role of Emperor Hirohito in the second world war, he said: "I could never imagine such a case, so I cannot answer such a question."

Mr Tanii later clarified his position, stating that creative decisions were up to MCA. "Matsushita has no intention of becoming involved in decisions regarding the subject or content of creative products at MCA." Any other policy, he said, "would be inconsistent with sound business practice".

Mr Akio Morita, the more cosmopolitan chairman of Sony, was asked the same question a year ago when Sony bought Columbia. He replied that he would never think of interfering in editorial decisions, but he could not guarantee that distributors would be willing to distribute such a film in Japan.

Back in Tinsel Town these issues are discussed, in boardrooms, on the golf course and among the cigar-chomping set at the Polo Lounge of the Beverly Hills Hotel. But the bottom line for Hollywood is that foreign owners bring capital, and if that is a short-sighted view, it is very much in keeping with a town where you are only as good as your last big hit.

OBSERVER

Switched on contender

■ Glasnost moves in a mysterious way. The latest front-runner for the critical job of vice-president to Mikhail Gorbachev in the Soviet Union is Nursultan Nazarbayev, dynamic Communist Party boss and president of the Kazakhstan republic.

He revealed his candidacy at a closed meeting of the Kazakhstan parliament, saying he had been secretly invited to stand either for vice-president, or Soviet prime minister.

The trouble was that someone forgot to switch off the transmitter relaying the parliament's proceedings to the press centre upstairs.

Nazarbayev looks more likely to win approval than the others mentioned so far: Eduard Shevardnadze, the foreign minister, Vadim Bakatin, just relieved of his interior minister's post, and present prime minister Nikolai Ryzhkov.

The first pair are too liberal for many members of the Congress of People's Deputies. Shevardnadze's home republic of Georgia is also set on outright secession from the union, which could prove embarrassing. Ryzhkov is largely discredited by the incompetence of his government.

Nazarbayev is a non-Russian, which helps Gorbachev in his desperate efforts to keep the union together, and would probably be solidly backed by the conservative central Asian republics. He is also a loyal Communist, but one who has adapted to perestroika.

Raised

■ The heads of some foreign securities companies in Tokyo change so fast they're gone almost before the ink is dry on their name-cards. Others believe that three years at most is enough time to devote to Japan. They should all take a lesson from Deryck Maughan, head of Salomon Brothers' Tokyo office, who has been in Japan since 1986 and has no plans to leave yet.

In that time, Salomon Brothers has grown into much the most profitable of the foreign securities companies in Japan. As a reward for his work in Tokyo, 42-year-old Maughan has just been promoted to be one of the seven vice-chairmen ranked immediately below his company's chairman and chief executive officer John Gufreund.

Maughan contrasts with the stereotype of a Salomon Brothers executive: the brash hustler portrayed so effectively in the book Liar's Poker. A tall soft-spoken Englishman, he looks more like the British Treasury official he once was than a Wall Street trader.

What's more, he has never played liar's poker in his life.

Precious time

■ Asprey was a little coy about the price of the limited-edition, platinum-cased watch which it advertised in the FT last week.

Inquiries reveal that you can have it for a mere £400,000. But that does include VAT.

Paper bridge

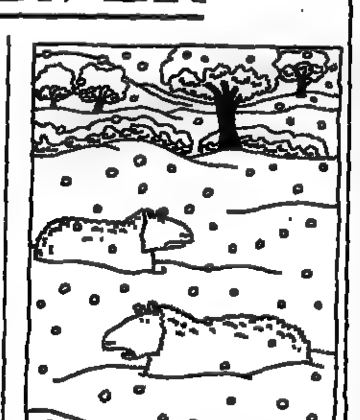
■ One branch of reunified Germany which needs no telling that old divisions persist is its newspapers. Hardly any of the big national dailies have been able to establish themselves east of the Elbe (the sole exception is the brash best-selling Bild, whose downmarket simplifications are lapped up by east Germans).

Even the Frankfurter Allgemeine Zeitung – flagship of the country's conservative press, which styles itself "the newspaper for Germany" – sells only about 15,000 copies a day in the east as against 360,000 in the other half.

Hence the FAZ's ambitious plan to bridge the divide by taking a 60 per cent share of the liberal-conservative weekly journal Rheinischer Merkur based in Bonn, and expand it into a broad-based weekly appealing to readers on both sides of the former frontier.

Rheinischer Merkur, which operates under the curious ownership of nine west German bishoprics, dates back to Napoleonic times. Relaunched after the Second World War, it is losing money on a circulation of 100,000.

Editor Thomas Kielinger believes the revamped paper could reach sales of 150,000. The plan is to take over two existing east German weeklies and bring out the new product in three regional editions.



"First a trade war, now this."

Past bucks

■ The air of introspective gloom and "image concern" now descended on Wall Street is prompting some interesting spin-offs. Not the least of them is a scheme to set up a museum of American financial history.

Its leading proponent is John Herzog, head of Wall Street stockbrokers Herzog, Heine and Geduld.

Thirty years ago, Herzog paid $5 for a stock certificate for the New York and Harlem Rail Road, thinking to frame and hang it in the offices of his father's brokerage. But noticing it had been signed by the Vanderbilts, he kept it and began buying other financial memorabilia.

As his collection grew, the museum idea got tossed around from time to time – accelerated by press mutterings about "the teachings of history" in the wake of the 1987 stockmarket crash.

After a couple of temporary exhibitions in the old US Custom House in the thick of the Wall Street area, Herzog has been joined by other enthusiasts and the quest is for a permanent home.

What sorts of material to include is a moot point. Herzog is keen on explaining the role of capital markets in funding early US entrepreneurs, and winces a little at suggestions of 1980s trivia such as Donald Trump's pens.

But there is no doubt that some potential exhibits could provide salutory lessons.

Lying in Herzog's office is a comic-style magazine which was circulating in 1928 called "Fame and Fortune Weekly" and sub-titled "Stories of the Boys Who Make Money". By 1929, it was out of business.

Logic

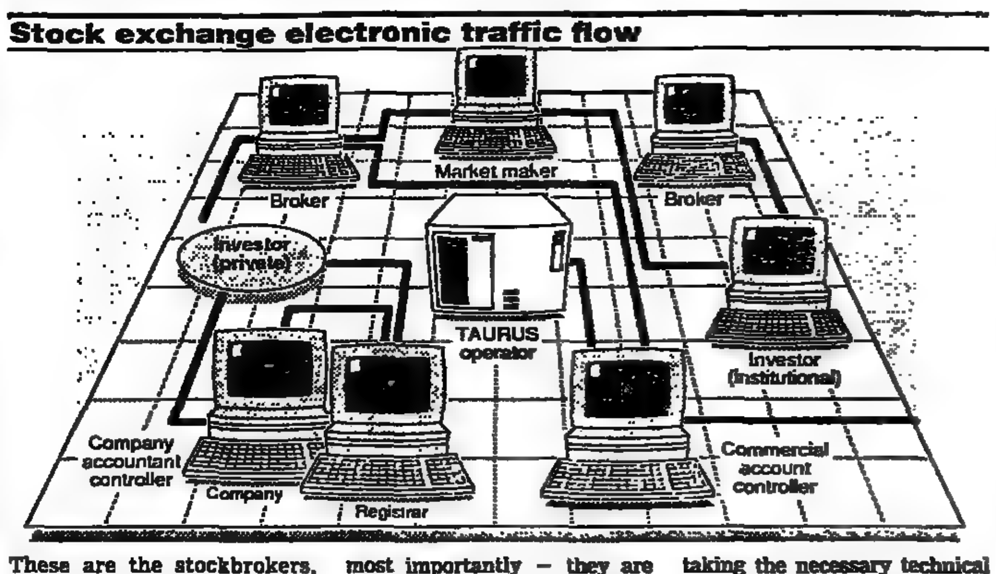
■ Getting off the train at Crewkerne in Somerset, a London businessman found no cabs or buses were available, leaving him a mile's walk to the office where he was due. Furious, he asked the ticket collector why the station wasn't in the town.

"Arrr, we thought about putting it there," came the reply. "But it seemed better to have it on the railway."

A new road, but little relief in sight

Richard Waters on the London stock exchange's electronic settlement system for share transactions

Stock exchange electronic traffic flow



Imagine ripping up all the roads in the City and relaying them according to a new blueprint.

Then imagine that each road user has to build – and learn to drive – a new car to fit these new roads. The traffic policemen have to write and impose a new highway code to keep the traffic flowing.

All this has to be done by next October.

That gives some sense of the size of the task in front of the financial community as it faces what is likely to be the biggest one-off overhaul of its infrastructure.

The cause: the development of Taurus, the electronic clearing and settlement system for stock market transactions intended to reinforce the City's claims to being Europe's leading financial centre.

Like a badly-laid out street plan, the current paper-based settlement process is too prone to arterial clogging, and exposes its users to too many hardships and risks.

For a share deal to be logged, checked, cleared, settled and entered on a company's share register, a mass of paper has to change hands. At the peak of the 1987 settlements crisis, £8bn of uncompleted bargains were jamming up the City due to the inability of operators to move the paper round fast enough.

The problem is made worse by the built-in delays of London's two-week "account", or trading period, under which all deals are settled on a single day, 10 days after the account closes.

Taurus's answer: scrap the paper. From next October, share certificates will start to disappear, to be replaced by computer entries – a process known as dematerialisation. Shares will be held in accounts maintained by "account controllers" – either brokers, custodians and some large investors, or listed companies themselves.

Taurus's second phase, due in October 1992, involves scrapping the account system and settling all deals five days after they are done. This rolling settlement period will eventually be reduced to three days.

This new street-plan sounds fine in practice. The trouble is, each group of road users wants the new system to favour them at the expense of others. In view of such a barrage of vested interests, there are serious concerns about whether the Taurus planners will succeed in getting their new electronic traffic flowing by next autumn.

The blueprint was laid down by the International Stock Exchange only in October, along with a tariff for users. These are the stockbrokers, banks, registrars and others who have an interest in keeping the traffic moving.

The master planner, Mr John Watson, is confident that he can achieve compromise by a mixture of persuasion and trade-off.

But the grumbles coming from many sections of the financial community suggest it will not be easy reconciling all the warring interests by next October – even if the huge technical obstacles of building Taurus can be overcome. Here are some of the problems still to be solved:

● Smaller stockbrokers – the taxi drivers of the stockbroker world – believe Taurus will put many of them out of business. Like cabbies, they rely on low overheads and a good supply of passengers to make a living. They believe Taurus will greatly add to their overheads, at a time when passengers are few and far between.

They also fear that they will be forced off the road by the articulated juggernauts of the City – the large banks. These juggernauts, they say, are getting too much of the road to themselves these days.

The banks act as brokers (responsible for more than a fifth of all bargains by individuals), market makers, registrars and custodians. Also – most importantly – they are the controllers of the clearing system on which rival brokers rely, and they are the main source of finance for brokers. No wonder the cabbies are concerned. Taurus will accentuate the dominance of the banks.

Rolling settlement spells even worse problems for brokers. They will no longer be able to deal for a client, and then wait for a cheque to arrive in the post: they will have to persuade clients to leave cash with them in advance, or teach them how to deal on margin (not a common practice).

The financial community is facing what is likely to be the biggest one-off overhaul of its infrastructure

The ISE says it is helping the cabbies in a number of ways. It is working with them on a strategy paper which would help them clarify their options after Taurus. "They've got to change, there's no way of carrying on as they are," says Mr Watson.

It is also keeping a close eye to make sure each driver is taking the necessary technical steps ahead of October. Any cabbie not technically ready will not be allowed onto the road.

However, the ISE can't change the economic fundamentals of the brokers' business. And it can't change the slow creep of the banks into every facet of the share trading business.

● The juggernauts are also unhappy. They are perturbed by a new road tax designed to shift a large part of the cost of the new system on to them.

The tax takes the form of an annual 0.0025 per cent levy on the value of securities held within Taurus. That sounds small: but for portfolios that run into billions, the impost quickly rises into six figures. Those affected will be custodians and large institutional investors who maintain accounts within the Taurus system.

Pointing out that these institutions can expect the largest savings from Taurus, Mr Watson nevertheless appears to have been taken off-guard by the antagonism he has caused. "This is all subject to review," he says, hinting at a lowering of the tax. That could mean higher transaction costs for all other Taurus users.

● The third group of malcontents are not road users at all: they are the listed companies whose shares are shuttled to and fro across the City.

Their interest is in knowing where their shares are at any one time: how many, for instance, have found their way round to Hanson Mansions, or Goldsmith Square?

Under current plans, a full register of each company's shareholders will be drawn up once a month, with information culled from around the Taurus network. This is not enough, complain companies: it should be once every two weeks.

The ISE's case is that companies will in practice have more up-to-date information under Taurus than at present – an argument that is gaining grudging support among companies.

The ISE plans to write to every listed company to put its case. "We quite clearly have not yet got the message across," says Mr Watson.

● The time taken to develop a new highway code for Taurus may make October's launch a damp squib. Turning shares into electronic data demands a rewrite of the law, for instance redefining when a shareholder acquires rights as a member of a company.

A draft of the new legislation is not expected until early next year, with the changes passing into law probably in June. With many companies' annual general meetings in March or April, how will companies be able to ask their shareholders' permission to join Taurus this year?

No problem, says the ISE. The department of trade and industry plans to produce a standardised set of amendments to a company's articles of association, and companies need only ask shareholder approval to adopt these once they are produced.

The legal structure is only part of the job. A new regulatory structure is also needed, approved by the Securities and Investments Board.

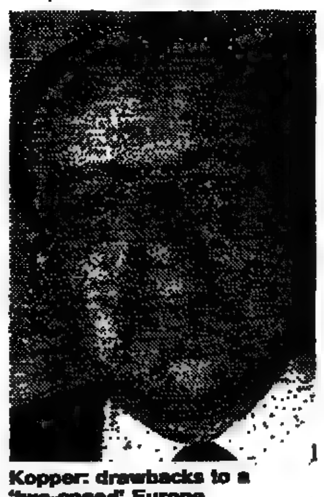
Taurus users need to be cleared as "fit and proper" and meet a minimum level of capital adequacy to take part, and a new compensation scheme will have to be created to protect investors. Regulators have been grumbling recently that the Taurus project is being run by technocrats who have given too little attention to these matters.

All the stresses and strains, the special pleading and complaints listed above are only natural given the upheaval that is coming. But their persistence so late on in the project, when policy disagreements should have been dispelled, suggests that tough times lie ahead.

European monetary union

Getting to grips with the question of convergence

By Hilmar Kopper



Kopper: drawbacks to a 'two-speed' Europe

The inter-governmental conference starting in Rome this week on establishing European Monetary Union (Emu) is crucial for Europe's future. It is vital that both this and the parallel conference on political union are turned into successes. The 1990s will become a European decade if we are prepared to do away with some of our old-fashioned illusions of national sovereignty.

Given the current institutional momentum towards Emu built up at the EC's Rome summit in October, some European governments face the risk of not being able to enter into full monetary union at the same time as others. The prospect of a "two-speed" Europe has re-emerged as a central issue, in view of the remaining large degree of divergence in EC economies. If addressed properly, however, the question of "two speeds" could actually hasten convergence by focusing attention on the political and economic drawbacks for the countries which would be left behind.

The Rome summit produced a clear commitment to the objective of Emu and a single currency – "a strong and stable Ecu". Only the UK did not approve of this goal. It is unfortunate that Mr John Major, the prime minister, has repeated that the "imposition" of a single currency remains unacceptable to the British government. The summit also agreed to enter the second phase of Emu by January 1 1994, provided certain conditions have been met, and to set up a "new monetary institution", independent of governments and committed to price stability.

The British government's proposal of a hard Ecu is ill-founded

The British government's proposal of a hard Ecu is ill-founded. This concept not only expresses the UK's lack of political commitment towards full monetary union; it also embodies the drawbacks of a parallel currency and will further complicate the process of monetary co-ordination.

The proposal may be an excellent way of stimulating brains, but it is impractical and wasteful in the real world as long as there are strong currencies such as the D-Mark. A new currency in its infancy cannot win when competing against adults like the D-Mark. Furthermore, if the process were taken to its logical conclusion, the hard Ecu could be, for the UK, somewhat counterproductive. It could lead to weaker members of the "club" gradually disappearing. Seen from today's perspective, these would include sterling.

One big disadvantage of the Rome summit conclusion was the imprecise definition of the contents of Stage Two. This aspect will have to be clarified in the forthcoming inter-governmental conference. There is a particular lack of clarity over the "distribution" of competence in monetary policy between the new European bank and the national central banks. A better alternative would be to extend Stage One in order to allow time for sufficient economic convergence. During this time, the present margins of fluctuation in the European Monetary System could be reduced to an even narrower band, and instruments could be developed for executing a single monetary policy after the "big bang" of transfer of responsibility to the new central bank.

A key element in the envisaged agreement on Emu will be represented by the statutes of the European Central Bank. A draft was recently agreed by the EC Central Bank governors. Such a clear-cut proposal at a comparatively early stage is very promising.

Nevertheless there are a variety of "gaps" and residual points of controversy – for instance the division of power between the European Central Bank's executive board and the governing council, as well as the bank's responsibility for exchange-rate policy *vis à vis* third countries. The location of the new bank will also have to be decided. The German banking community is pleased that Frankfurt is considered to have a good chance.

This question of convergence is clearly vital. At present, an early move towards Emu by the "core countries" with low inflation rates and virtually fixed bilateral exchange rates, i.e. France, Germany, Belgium, Luxembourg, the Netherlands and probably Denmark, seems possible. While economists would have little difficulty accepting such a two-tier system, at least for a transitional period, this outcome would be anything but welcome to politicians and businessmen.

Questions remain about the powers of the Bank's board and council

These deliberations on a "two-speed" Europe should provoke thoughts about the extra costs of all the extra rules and institutions that would be necessary if some important countries trailed behind. If we want Emu to be a pillar and not just a torso, it is essential that during the transition to the final stage of Emu, this "core" should include such important countries as the UK and Italy. For these countries, the very danger of being "left out" of a full move to Emu may in coming years spur them towards getting their economies more in line with the rest of Europe.

The author is spokesman of the management board of Deutsche Bank.

LETTERS

Taxman must shoulder some blame for poor safety record

From R.N. Coult.

Sir, Sister Frances Cummings ("Death and accident bedevil construction", November 30) is correct in believing that the structure of the construction industry, with its reliance on sub-contractors, has much to do with its poor safety record, but your article does not explain why this fragmentation has occurred in the construction industry but not in other parts of industry.

Much of the blame for the unhappy accident record in the construction industry lies in the tax system which has allowed bricklayers, joiners and other skilled and semi-skilled workers to be regarded as self-employed and enjoy the tax advantages to be derived from the system. Most of these employees do not fulfil any proper test of self-employment and most do not insure themselves against accidents at work. When they are injured at work, as many are, the main contractor will attempt to deny any liability on the grounds of self-employment. A case for damages on grounds of negligence against a main or other contractor has first to surmount this barrier.

Paradoxically, the Inland Revenue could achieve more in ensuring safety on construction sites than the Health and Safety Commission could. Unfortunately, a large part of the construction industry likes to be able to draw on a pool of casual skilled labour for which they have no responsibility, and until this changes there will be no significant and lasting improvements in safety on building sites.

R.N. Coult,
Vernon House, Grindleford, Sheffield

The worker-director can be a valuable intermediary

From F.S. Law, CBE.

Sir, Your leader ("Employees as directors", December 4) sets out very well the pros and cons of a subject which has evoked controversy over many years.

The "employee-director" was a subject frequently discussed at the Economic and Social Committee in Brussels where, although an employer-representative, I found myself in conflict with most of the UK employee-representatives.

I have no doubt that a trade union representative on a board is not the best solution, but that a so-called "worker-director", representing the work force, will have a positive influence on the strategy which the board wants to formulate.

The confrontation between management and workers in the past has been one of the ills which has beset British industry. The fact that this confrontation is less likely now is surely due to a greater acceptance by the two sides. In order to achieve in world markets, management and the work force must understand each other's aims.

It is for this reason that I strongly believe that companies should be encouraged, but not forced by law, to have worker-directors in order to improve the relationship between "bosses" and "employees".

F.S. Law
43 Lennox Gardens, London SW1X ODF.

From Denis Macshane.

Sir, The Guinness shop stewards who persuaded Mr Campbell Christie, general secretary of the Scottish TUC, to turn down an offer to become a member of the Guinness board, may have been wiser than the company in making the proposal in that form, or yourself for so endorsing it.

The link between company and employees – if it is to take the form of workers or trade unionists (not necessarily the same thing) on the board – has to be structured within the framework of the company. The confusion in roles is obvious if companies can scud about picking and choosing which trade union official they want to have on their board. Unions as institutions should remain apart and distinct from companies. Employees, however, should be more involved in company direction in a fashion that is transparent and not dependent on grace, favour or fashionable indulgence by a managing director and his board.

Certainly, the more successful economies of Europe appear to have been strengthened by institutionalising the presence of directors elected or nominated by workers or workplace union structures.

The Guinness imbroglio with Mr Campbell Christie may, however, serve a useful purpose in beginning a more serious discussion about how British companies might enter into effective partnership with their employees and reverse the drift towards Britain's becoming an offshore rentier economy.

Denis Macshane,
*International Metalworkers' Federation,
54 bis, route des Acacias,
Case postale 563, CH-1227 Geneva*

It's all a matter of mathematics

From Dr David F. Lomax.

Sir, Samuel Brittan seems to have spoiled the effect of his interesting article ("Serious not desperate", November 15) by committing absent-mindedly what appears to be an undergraduate howler.

He mentioned "the blow to world savings from the shrinkage of the German and Japanese surpluses". The later text indicates that the current account surpluses are being referred to.

Since the world current account figures must net out to nought (and the recorded figures would do so if they were measured properly), it would seem impossible for the balance of payments of a country to make any contribution whatever to the world's net savings. If Germany and Japan have lower current account surpluses, and thus less savings, correspondingly other countries must have lower deficits, and therefore more savings. Current account statistics are irrelevant in a discussion of total world savings.

Dr David F. Lomax,
4 Claremont Road, Claygate, Esher, Surrey

Samuel Brittan writes:
Dr Lomax may remember the difference between ex ante *and* ex post.

The airport solution could be staring us in the face

From C.D. Hickey.

Sir, Is it really necessary to add to the traffic at Heathrow, Gatwick or Stanstead (HGS)? Just in case no one has noticed, not all the nation lives within the London area.

The collapse of the socialist ethos in the east, followed by near anarchy in the former Warsaw Pact countries, has reduced, if not eliminated, the threat of war from that quarter for many years. It follows that the RAF will probably contract, and the USAF, too, will scale down its UK operations.

Is it not possible to use some of the magnificent military airfield facilities currently under-used? If such airfields are placed on a care and maintenance basis, shortage of money will quickly ensure that they will be neither maintained, nor cared for; merely left to rot. At the same time, further vast sums will be spent in providing more civil airport facilities.

As an example, Birmingham, Bristol, Reading, Swindon, Salisbury and Worcester are all within a 60-mile radius of Fairford in Gloucester. Would it not be reasonable, therefore, to offer the population in that area an alternative to travelling through the London area? Road and air traffic in the HGS area would be reduced, and employment more evenly spread.

Add to Fairford: Greenham Common, Brize Norton, Lyneham, Alconbury and Mildenhall, and it would appear that there is a surplus of airfield capacity which might be "tailor made" to fit into the civil aviation structure, complete with buildings and facilities.

Finally (and other than the fact that both the civil and military dislike the idea), is there any valid reason why most airfields should not be designated and operated as Joint User Airfields? Furthermore, a fresh approach to the problem could offer some long overdue competition to BAA.

C.D. Hickey.
Jarretts Farm, Balcombe, Sussex,

FINANCIAL TIMES
Monday December 10 1990

Administration at odds over reappointing comptroller of currency for five-year term

US officials split on banking post

By Peter Riddell, US Editor, in Washington

THE Washington debate about how far federal regulators are responsible for the credit crunch in the US has developed into a battle between senior members of the Bush administration over the reappointment of the main banking supervisor.

The term in office of Mr Robert Clarke, the comptroller of the currency, who is in charge of the regulators of federally chartered banks, expired at the end of last month and he is being backed for a further five-year term by Mr Nicholas Brady, the treasury secretary, his overall superior.

However, Mr John Sununu, the White House chief of staff, opposes Mr Clarke's reappointment, arguing that the comptroller's regulators have been too assiduous in their examinations, resulting in a cut in new loans which is pushing the economy into recession.

Clarke: at centre of row

President George Bush himself acknowledged the widespread concern about over-zealous regulation, as it has been generally described in Washington, in a speech two weeks ago. But regulators, including Mr Alan Greenspan, the chairman of the US Federal Reserve, have defended close scrutiny as a necessary corrective to the lending boom of the 1980s, particularly for property development, and as a way of avoiding the costly savings and loan collapse.

The odds are still that Mr Clarke will be reappointed, though other candidates are apparently being considered and Mr Bush faces a difficult choice between the views of Mr Brady, a close adviser and friend, and Mr Sununu, his most senior White House aide.

At a White House meeting in mid-November Mr Sununu was said to have complained that regulators had forced banks to tighten lending standards too much, leading to a cut in loans. The regulators have forced banks to adjust their books to reflect the prospect that some loans are unlikely to be repaid.

Mr Clarke has been backed by Congressman Henry Gonzalez, the Democratic chairman of the House banking committee, while Senator Lloyd Bentsen, chairman of the Senate finance committee, has also defended him.

Despite the reservations of several bankers, most of those at a recent meeting of 87 members of the Association of Bank Holding Companies, accounting for three-quarters of all US bank assets, backed Mr Clarke's reappointment.

Among those who thought there were credit problems, 37 said it was due to overzealousness by examiners, while 10 thought it reflected both that and Mr Clarke's policies.

Tough year ahead for advertising industry

By Alice Rawsthorn in London

THE international advertising industry faces a gruelling year in 1991 as its recession continues in the US and other markets start to slow down, according to a study* by a leading advertising agency.

The study, compiled by Saatchi & Saatchi, suggests that the global advertising market will show real growth of 1.2 per cent – much lower than previously expected – in 1991.

Saatchi estimates that the market has grown by 1.6 per cent to $202bn this year.

A prolonged slowdown in the advertising market could cause difficulties for the global marketing services groups.

Some of these companies, including WPP Group and Saatchi itself, are already struggling with serious financial problems.

The chief cause for concern is the US, the world's largest advertising market. The market there has deteriorated throughout 1990.

Saatchi estimates that expenditure on the leading media – television, press, radio and posters – has fallen by 2 per cent in real terms to $83bn this year.

The UK, the third largest global market, is also in the throes of recession. The market has fallen by 7 per cent to $13bn this year, and is not expected to recover until the second half of next year at the earliest. Saatchi expects another fall of 2.5 per cent in 1991.

The European advertising market has been relatively buoyant, rising by 2 per cent to $56bn this year, but the combination of the Gulf crisis and the US recession is now affecting advertising expenditure in most European countries.

The most buoyant region is Asia-Pacific, where expenditure has risen by 7 per cent in real terms to $48bn this year.

Saatchi forecasts continued growth of 4 per cent for next year. But Japan, the largest Asian market, is starting to slow down.

The level of real growth in Japanese advertising is expected to fall from 8 per cent this year to 4 per cent next year.

The Australian advertising industry is in recession with no recovery in sight. However

* *Advertising Expenditure Forecasts, Zenith Media Worldwide, Bridge House, 63-65 North Wharf Road, London W2 1LA. £130 ($250)*

Serbian election hit by ethnic boycott

By Laura Silber in Pristina, Kosovo

ETHNIC Albanians in the Yugoslav province of Kosovo yesterday boycotted the first multi-party elections in more than 50 years in Serbia, the largest republic.

The region's 700,000 Albanian voters overwhelmingly heeded an appeal to boycott elections in protest against Serbia's control over the province. Political parties representing Kosovo's 1.8m ethnic Albanians did not put up candidates for Serbia's presidency and parliament.

Election observers in the town of Pec, where Albanians make up more than 70 per cent of the town's 37,000 population, said only five Albanians had voted by mid afternoon.

Mr Ibrahim Rugova, the president of Kosovo's Democratic League, the largest Albanian party, which claims more than 700,000 members, said: "If we had participated in the elections, it would have given legitimacy to Serbian rule over Kosovo. These are not free elections. Albanians want to elect Kosovo's representatives, not Serbia's. Free elections do not take place under police occupation."

Contenders: Milosevic (left) facing Draskovic's challenge

The parliament of Kosovo was dissolved last July and the Albanian daily newspaper Rijilindja banned by Mr Slobodan Milosevic, president of Serbia and head of the republic's Socialist (former communist) party, after Albanian parliamentary deputies declared Kosovo's independence from Serbia.

Serbia then promulgated a new constitution in September which brought the province under direct rule by the republic. At least 30 Albanians died in 1990 during protests against Serbian control.

Mr Milosevic is the front-runner in the presidential election, but he has faced a tough challenge from Mr Vuk Draskovic, the leader of the Movement for Serbian Renewal. Mr Draskovic has gained credibility recently with attempts to moderate his ultra-national politics.

Despite the Yugoslav army's support for a communist victory in Serbia, the party is not expected to win a majority in parliament. Mr Draskovic's party and the Democratic party are expected to make a strong showing in the first of two rounds of elections, which pit communists against nationalists. The second round will take place on December 23.

Mr Draskovic, who once called for the mass expulsion of Kosovo's Albanians, last week said if elected he would negotiate with "the legitimate leaders" of Kosovo to seek a solution in Yugoslavia's poorest region. In contrast, the media in Serbia, under tight communist control, refers to the Albanian opposition leaders as terrorists.

Levitt Group collapses with status of clients' funds uncertain

By Vanessa Houlder in London

THE COLLAPSE of Levitt Group, one of the largest private financial services companies in the UK, has left uncertain the status of the funds of its 18,000 clients.

Levitt's request for an administration order, which was made on Friday night, came two weeks after it emerged that Fimbra, the regulatory organisation, had withdrawn its recognition from Mr Roger Levitt, the company's founder.

Fimbra withdrew its recognition after questioning Mr Levitt about the source of £21m ($40.32m) of invoices. The regulators asked him to resign as chairman and chief executive of the main financial services company and to relinquish most of his controlling shareholding.

It is believed that Fimbra does not suspect fraud. Although there is a question mark over the safety of the funds of Levitt's clients, there is no evidence that money is missing.

Fimbra's investigation of Levitt began after a random check several weeks ago revealed the disorganisation of the company's financial records. A statement is expected from the regulatory body today.

Fimbra's action, which received no publicity at the time, came to light after the company announced that it was going into administration. The company declined to comment about the detailed reasons for seeking administration, although it is believed to have breached its capital adequacy requirements.

Its failure will come as an embarrassment to several City institutions, including Chase Manhattan, Commercial Union, General Accident and Legal & General, which had minority stakes in Levitt.

Last week, the institutional shareholders in Levitt declined to come to the rescue of the group. "They were asked to provide a substantial capital injection. They decided not to amongst themselves," said Mr Fred Tucker, a director, yesterday. Levitt Group, which has a clientele of corporate clients and wealthy individuals, is involved in a range of financial services including pensions, insurance consultancy and broking and investment advice.

The company had a high profile as a result of celebrity clients such as Lennox Lewis, the boxer, and the extrovert business style of Mr Levitt, who was paid £989,000 in 1987.

Administrators from Peat Marwick McLintock spent yesterday consulting with Levitt's directors at the company's offices, prior to seeking a high court administration order.

THE LEX COLUMN

So farewell then, privatisation

The electricity share issue being allocated today is the last big peak in the UK privatisation programme. There are still the two generators and the Scottish companies to come. Thereafter, the mooted privatisations of British Coal and British Rail are surely headed for the ideological dustbin. It is a good moment to look back on what begins to look like a quintessentially 1980s phenomenon.

From the viewpoint of the capital markets, the effects of privatisation have been deeply equivocal. The cause of serious private investment has been damaged by the trivial emphasis on stagging profits. The City, which derived huge fees from the process, now faces a corresponding period of adjustment. The reputation of the markets has suffered from the mild but systematic fraud practised on the taxpayer, whereby the giveaway element in the flotation price has represented a straight transfer of wealth to those with the cash to buy the shares, many of whom were not even UK taxpayers in the first place.

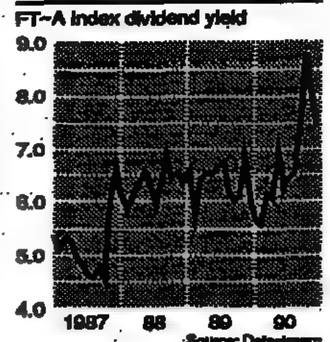
The effect on the companies privatised, though more obviously beneficial, is a little equivocal as well. The supposed transformation in management practice must be treated with caution. The main proponents of the case are the managers themselves, whose higher rewards and status in the private sector make them interested parties. The increased autonomy of the UK managerial class in the 1980s is both indisputable and welcome. It is less clear that it is confined to the private sector.

It is also unfortunate that most of the industries privatised – airports, water, gas, electricity – are of a kind which governments feel themselves impelled to control anyway. In many cases, the effect has been to swap a Whitehall mandarin for a regulator, the chief difference being that residual profit now goes to pension funds instead of the Treasury. There is genuine benefit in the fact that the companies are now free to borrow and structure their balance sheets in a commercial way. But state-owned industries in other countries such as France are free to do that anyway. It seems a biggish sledgehammer to crack a smallish nut.

The abiding impression of the whole programme is that it was unexceptionable in principle and irrelevant in practice. It is hard to see a Labour government reversing it, since there will be no need to. The instruments of control remain in place. At the root lies the old objection that the government was torn between the need to raise money and the desire to promote competition. The former won. Having taken the money, the government now finds itself obliged to control the monopolies – and their profitability – by main force. The companies were not only sold cheap. They were sold on a dodgy prospectus.

Banks

FT-A index dividend yield



Source: Datastream

Bank dividends

The board has determined that it is in shareholders' best long term interests to cut the dividend. This chilling declaration may not yet be common parlance, but the market has the message. Of the highest yielding stocks in the FTSE at the start of the year, very few have outperformed the market. Double digit yields mean serious dividend danger.

Nowhere is this clearer than in banks. The shares of Citicorp, the biggest US bank, yield 12 per cent despite a recent rally. Standard Chartered yields over 16 per cent and Westpac, Australia's biggest bank, yields 18.5 per cent. Some US banks have already cut their payout, as has ANZ. There is even talk that some of the Swiss banks may cut, in particular Credit Suisse.

But they are the exception. Big banks are terrified of cutting their dividends, the main reason being the need to maintain confidence and access to the capital markets. Citicorp, for example, needs an extra $1bn of capital but would only save $300m per annum by halving its dividend. It regards cutting dividends as a highly inefficient way of raising capital. It may be right. But if it prefers to dilute its shareholders by issuing equity, it will be acting more like a UK clearer.

Standard Chartered's position is far less clear cut. In terms of fresh equity issues, it has exhausted its shareholders' patience. Its lack of UK earnings has led to a ruinous tax charge. Although the dividend yield has roughly doubled over the last year, it provides little real support for the shares. By deciding to hold the dividend Standard may want to protect itself from an unwelcome takeover bid. If so, it is doing its shareholders an even bigger disservice than by cutting the pay-out.

German property

There are two things one can say confidently about investing in commercial property in the early 1990s. Owning offices and shops in London will be a lot less lucrative than owning real estate in Frankfurt. And the UK's institutional fund managers have lots of the former and virtually zero of the latter, save in indirect form through shares in the likes of MEPC.

Overseas property has a bad smell for UK fund managers, given their experience in the US. The WM Company's end-1989 survey of 1500 pension funds showed that of their £235bn of assets, only £2.2bn were in foreign real estate. Perhaps two thirds of that was in North America. The only big UK pension fund with any large direct presence in West Germany is ICI's, with properties in Frankfurt, Düsseldorf and Stuttgart totalling just £43m.

Is the underweighting in German property a bad thing? Not if the investor thinks either that UK funds have too much property anyway, or that in the fullness of 1991 all real estate markets – including Germany – will overheat then slump. The former view is intellectually sustainable, the latter probably not. The strict planning regime in German cities is one factor. Another is the domination of the market not by debt-financed developers but by domestic insurers, or by the large open-ended property investment funds run by banks. Nor would the underweighting matter if one could gain exposure through German quoted property companies. The snag is that there are very few, and most are rather odd. The practical difficulties of investing directly remain, given the market's relative immaturity and illiquidity. But this seems another of the investment nettles of the 1990s which fund managers will have to grasp at some stage, assuming they have not lost their taste for property altogether.

UK minister attacks US over Gatt

By Our Foreign Staff

MR JOHN GUMMER, Britain's agriculture minister, yesterday sharply attacked the US for adopting an intransigent position in the world trade negotiations in Brussels, adjourned indefinitely on Friday in an atmosphere of mutual recrimination.

Mr Gummer, commenting on the last few days of negotiations in the Uruguay Round of trade-liberalisation talks, said in a television interview: "You cannot go around the world telling other people to give way to the American position.He added that the US had not changed its position for more than one year.

"America has got to think very seriously about the way she has tried to get a deal which would protect her own farmers and affect everybody else's farmers."

Mr Arthur Dunkel, director-general of the General Agreement on Tariffs and Trade (Gatt) has been asked by ministers to consult with participating governments over the next few weeks with a view to reconvening the negotiations in Geneva at "an appropriate date."

Editorial comment, Page 14

Power sale likely to be UK's most successful privatisation

By Richard Gourlay in London

THE £5.2bn ($9.98bn) sale of shares in Britain's regional electricity companies is likely to emerge as the most successful of all UK privatisations with 12.75m applications for the 12 companies from more than 5m people when details are revealed this afternoon.

Although the level of over-subscription means there will be a heavy scaling down of share allocations, the government said that 25 per cent of electricity customers would receive the amounts they had requested in their local companies.

The early indication of the issue's success emerged yesterday after weekend blizzard conditions nearly knocked out power supplies at the main sorting centres in Birmingham. Over 10.7 times more applications were received than the number of shares originally available, compared with a figure of 5.7 times for the most recent sale of water shares.

"The electricity sale which was frequently dubbed "troubled" and "the most-accident prone" has turned out to be the most successful of all privatisations," a government adviser said.

The government's obvious delight with the privatisation follows a campaign plagued by a botched effort to privatise the nuclear industry and the controversial on-off negotiations in the summer to sell PowerGen, one of the two generating companies in England and Wales, to Hanson, the UK conglomerate.

However, the premium at which shares are likely to trade tomorrow has already attracted criticism from opposition members of parliament who believe there has been a fire sale of national assets.

Full details will be available tomorrow on Tuesday and the London stock exchange has said it will remain open for trading in all shares for an extra 1¼ hours to accommodate anticipated heavy trading in the privatisation issue.

The criteria for allocation of shares, set by Mr John Wakeham, the Energy Secretary, favoured customers of local companies and small investors.

Yesterday, there was a strong indication that small investors had responded heavily and 10.2m of the 12.75m applications were for less than 500 partly paid shares, while 3.4m applications were made for the minimum 100 shares.

UK institutions received an allocation of 30.4 per cent of the offer and foreign investors were allocated 15 per cent, both reduced after claw-back provisions were triggered last week following the high level of public demand.

On Saturday 275 Lloyds Bank employees were stranded overnight at one of the main sorting offices in Birmingham because of the Arctic weather conditions that swept the Midlands but they managed to complete the processing on time. However, the snow has meant delays in printing interim share certificates and the postage of these and refund cheques, initially set to be sent on 19 December, are now likely to arrive only just in time for Christmas.

The large response has included some draconian scaling down of allocations including the following:

- Everybody who applied for the minimum 100 shares in their own electricity authority or elsewhere will receive their allocation, apart from non-customers at Seeboard, who will receive 90 shares.
- Seeboard was so over-subscribed so that no one will receive more than 100 shares.

Walesa seems set to win

Continued from Page 1

Mr Tyminski retains a strong political position at the head of a coalition of people from small towns, who are worst hit by unemployment, and groups including coal miners whose incomes have sharply fallen.

Middle-ranking members of the former communist establishment have also joined this coalition, in order to challenge Solidarity.

After the swearing in, the new president is expected to nominate a prime minister who will then be asked to form a government.

Later this week, parliament will debate Mr Mazowiecki's resignation. After his defeat, he said he no longer had a mandate to continue as premier.

The role of the president has yet to be defined. Mr Walesa said he wants to continue with the government's economic policies while easing the monetary discipline on the farmers and miners.

He also promises speeding up privatisation and the market economy.

Parliament is drawing up a new constitution. However, it is understood that the president's future powers will be considerable but matched by a major role for Parliament.

It is unclear which parliament will approve the new constitution.

WORLDWIDE WEATHER

		°C	°F			°C	°F
Ajaccio	R	13	55	Berlin	F	-1	30
Algiers	[illegible]	14	57	Biarritz	R	3	37
Amsterdam	[illegible]	2	36	Bombay	S	30	86
Athens	F	15	59	Bordeaux	F	6	43
Bahrain	-	-	-	Boulogne	Sn	0	32
Bangkok	F	32	90	Brussels	C	1	34
Barcelona	S	8	46	Budapest	C	2	36
Beirut	-	-	-	Buenos Aires	C	25	77
Belfast	F	5	41	Cairo	F	23	[illegible]
Belgrade	[illegible]	8	46	Cape Town	S	29	84

		°C	°F			°C	°F
Caracas	[illegible]	26	79	[illegible]	C	6	43
Casablanca	C	17	63	Florence	R	12	54
Chicago	S	1	34	Frankfurt	C	2	36
Cologne	C	4	39	Geneva	C	1	34
Copenhagen	C	4	39	Gibraltar	C	12	54
Corfu	F	13	55	Glasgow	S	6	43
Dallas	S	2	36	Helsinki	Sn	-2	28
Dublin	R	5	41	Hong Kong	F	25	77
Dubrovnik	F	9	48	Innsbruck	F	11	52
Edinburgh	F	4	39	Inverness	F	4	[illegible]

		°C	°F			°C	°F
Islamabad	C	18	65	Madeira	C	17	63
Istanbul	F	12	54	Madrid	F	4	39
[illegible]	R	31	88	Majorca	F	11	52
Jersey	S	5	41	Malaga	S	13	55
Johannesburg	F	26	79	Malta	S	18	65
Lima	R	21	70	Manchester	F	3	37
Lisbon	F	6	43	Manila	F	30	86
[illegible]	F	4	39	Melbourne	C	21	70
Los Angeles	S	14	57	Mexico City	C	12	[illegible]
Luxembourg	[illegible]	0	32	Miami	S	11	52

		°C	°F			°C	°F
Milan	[illegible]	0	32	Nicosia	S	21	70
Montreal	[illegible]	-1	30	Oporto	[illegible]	7	45
Moscow	S	-3	27	Oslo	Sn	-1	30
Munich	[illegible]	-2	28	[illegible]	Sn	2	36
Nairobi	-	-	-	Peking	S	6	43
Naples	C	15	[illegible]	Prague	[illegible]	-4	[illegible]
Nassau	C	26	79	Reykjavik	[illegible]	2	36
New Delhi	S	20	[illegible]	Rhodes	S	17	63
New York	[illegible]	3	37	Rio de Janeiro	C	39	102
Nice	R	8	46	Rome	R	16	[illegible]

		°C	°F			°C	°F
Salzburg	F	-1	30	Tenerife	C	21	71
San Francisco	[illegible]	8	46	Tokyo	R	11	52
Seoul	[illegible]	13	55	Toronto	F	-3	27
Singapore	R	29	84	Tunis	C	15	[illegible]
Stockholm	C	1	34	Valencia	S	10	[illegible]
Strasbourg	C	0	32	Venice	R	7	45
Sydney	R	25	77	Vienna	C	0	32
Taipei	F	26	[illegible]	Warsaw	C	1	34
Tangier	C	12	54	Washington	S	2	36
Tel Aviv	F	21	70	Zurich	F	-1	30

Temperatures at midday yesterday C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

FINANCIAL TIMES
COMPANIES & MARKETS

Monday December 10 1990

INSIDE

LVMH's cup runneth over in bubbly deal

Antoine Riboud (left), chairman of BSN, Europe's third largest foods group, is is known as the old fox in Parisian financial circles. Mr Bernard Arnault, the 41-year-old chairman of LVMH, the drinks and luxury goods giant, is sometimes referred to as a young wolf. Together, they have cut a deal which will lift LVMH's share of the world champagne market to three times that of its nearest rival, as Will Dawkins reports. Page 18

Banks set to drop engagement

The boards of Midland Bank and the Hongkong and Shanghai Bank are expected to decide this week not to extend their three-year-old engagement. The expiry of the agreement would free the Hongkong Bank to sell its stake in Midland, releasing a wave of speculation over the future of the UK's third-largest clearing bank. Page 18

Pirelli pushes merger plan

Pirelli of Italy is not easily put off its goal of merging its tyre operations with Continental, the German tyre group (logo left). It plans to press ahead with merger proposals despite Continental's strong rejection of its initial terms. Pirelli claims it has the support of more than 51 per cent of the Continental shareholders. Andrew Fisher reports. Page 19

Banks meet on Goodman rescue

Bankers owed more than I£500m ($880m) meet today in Dublin to decide whether to approve a rescue plan for Europe's biggest beef processor and exporter, Goodman International. Kieran Cooke reports. Page 18

IMI plans international ventures

IMI, the Midlands-based engineering group, is drawing up plans which would significantly expand its presence in the US and the Far East. Charles Leadbeater reports. Page 16

Market Statistics

Companies in this section

Deal with Berisford ends four-year battle for Europe's third-largest producer

ABF buys British Sugar for £880m

By Vanessa Houlder in London

ASSOCIATED British Foods, the UK's largest milling and baking group, has agreed to buy British Sugar from Berisford International for £880m ($1.7bn), ending a four-year battle among some of Europe's biggest food companies.

The deal for British Sugar, the third-largest sugar producer in Europe, was signed early on Saturday morning after a five-way auction that included Tate & Lyle, Hanson, the UK conglomerate, and two continental European sugar companies.

Mr Garry Weston, chairman of ABF said that British Sugar would benefit from his group's financial strength and decentralised structure. He described the deal as a "very positive step" for ABF, which would enhance its earnings prospects in both the long and short term.

ABF has been seen as the most likely buyer of British Sugar for some time. It won regulatory approval and the two companies are thought to make a logical merger. They have similar structures in that both businesses buy from farmers, run large processing factories, operate within the Common Agricultural Policy and sell to large industrial buyers and, through retailers, to domestic customers.

For Berisford, the British Sugar sale will help reduce its £1bn debt, which is partly the result of an ill-timed move into New York property investments. It put British Sugar up for sale six months ago.

For ABF, the deal represents the timely use of a mountain of cash of more than £1bn before the purchase. In the first half of this year, the company made more money from investments than from trading.

The contenders were whittled down to five just eight weeks ago. Bids were received by November 28 and assessed during the next two days. The final deal was signed in the early hours of Saturday morning.

ABF will pay £583m cash plus £18m of net profit for the three months covering the period between British Sugar's year-end and completion of the deal at the beginning of January. It will also take £144m debt and repay debt of £135m. Before the deal, which needs shareholders' approval, ABF's bank balance stood at £1.25bn.

Earlier this year, analysts estimated British Sugar would fetch between £800m and £1.2bn. However, Mr Gerry Grimstone, a director at Schroders, the merchant bank that conducted the auction, said he was pleased with the deal considering the level of interest rates and the reluctance of bidders to commit large sums amid economic uncertainty.

"Given the state of the disposal market, this is a very good price," he said.

In the year to September 30, British Sugar made operating profits before interest of £118m on sales of £716m. Net assets stood at £309m.

Berisford now plans to sell miscellaneous food businesses worth between £50m and £100m. That will leave it with a rump of property in the UK and New York.

British Sugar has excited the interest of many other companies over the years. These include Ferruzzi of Italy and Mr Larry Goodman, the Irish businessman who built a stake before he met financial difficulties.

Getting the coffee market in the can

The success of tinned beverages in Japan has prompted an international offensive, reports **Robert Thomson**

A QUICK hit of canned coffee comes easily in Japan. On virtually every street corner, on remote rural roads, and on the beaches, vending machines stand ready to answer the consumer's call for coffee in a can.

There is canned café au lait, canned cappuccino, and canned drip filter, and they go by names such as Old Beans, Jive Coffee and, simply, The Coffee. Blended sales of the 64 competing companies this year will be $4.4bn, up 14 per cent, and consumption will average out at 76 cans for every Japanese.

The remarkable success of canned coffee in Japan prompted Coca-Cola of the US and Nestlé of Switzerland to combine their might to bring canned coffee and tea to the rest of the world. Last month the two signed a deal to create a company to manufacture and market ready-to-drink products which will be capitalised at $100m. Mr Helmut Maucher, chief executive of Nestlé, reckons that the ready-to-drink sector will be "one of the most rapidly growing segments of the world beverage market".

Japanese makers have doubts about how well canned coffee and tea will translate to other markets. They worry about the vandalisation of vending machines, which account for 68 per cent of their sales. And they say that two decades of success is founded on a change which cannot be repeated in the US or Europe – the westernisation of Japanese taste.

Credit for the creation of canned coffee is generally given to Mr Tadao Ueshima, who began by selling bottled coffee at railway stations after the war and, in 1969, put the coffee in a can. Mr Ueshima still oversees Ueshima Coffee Co (UCC), which has a 13.3 per cent share of a market crowded by Japanese beer companies' new-found interest in coffee and by the sales skills of the Coca-Cola company.

His success highlights another characteristic of the Japanese market. He sold the coffee cold, catering to an already strong demand for iced coffee, and 55 per cent of UCC's present canned sales are in summer. The company calculates that the perfect selling weather is a summer's day of 28 degrees Celsius.

The development of more sophisticated vending machines, with heating in winter and refrigeration in summer, has stimulated sales, as has a change in Japanese attitudes to impulse buying, according UCC's Mr Eiji Kishimoto, manager of the human resource division. He said that pre-war Japanese were proud of their self-restraint, but now, "if people want a coffee, they buy a coffee".

That is where the vending machine comes in. There are 5.4m vending machines in Japan, 2.2m with canned drinks, and the rest holding everything from flowers to comic books and lingerie. The average drink machine has 20 spots in 250ml or 350ml sizes at Y100 (76 US cents) a can. In UCC's case, seven spots are taken by coffee varieties, three are tea, and the remainder are juices and other soft drinks.

Coca-Cola Japan began selling soft drinks here in 1945, and introduced vending machines in 1962. The canned coffee came in 1975 with the launch of the Georgia brand (the company's head office is in Atlanta, Georgia), which has taken 34.3 per cent of the market, and inspired the agreement with Nestlé.

The new agreement excludes the Japanese market, where Nestlé is trying to lift canned beverage sales through a joint venture with a subsidiary of Otsuka Pharmaceutical. They released a Nescafé brand product in September and are using Otsuka's vending machines.

Mr Frank Kelly, executive vice-president of Coca-Cola (Japan), is confident that canned coffee will sell in foreign markets, particularly in "areas where the coffee culture is strong". Japan has lead the way, he says, because of the growing taste for coffee and the demand for convenience.

"The Japanese have very hectic lifestyles, which means that convenience is very important. The rapid development of the vending market has enabled Japanese consumers to buy a hot or cold can at an affordable price almost anywhere and at any time of the day or night," Mr Kelly said.

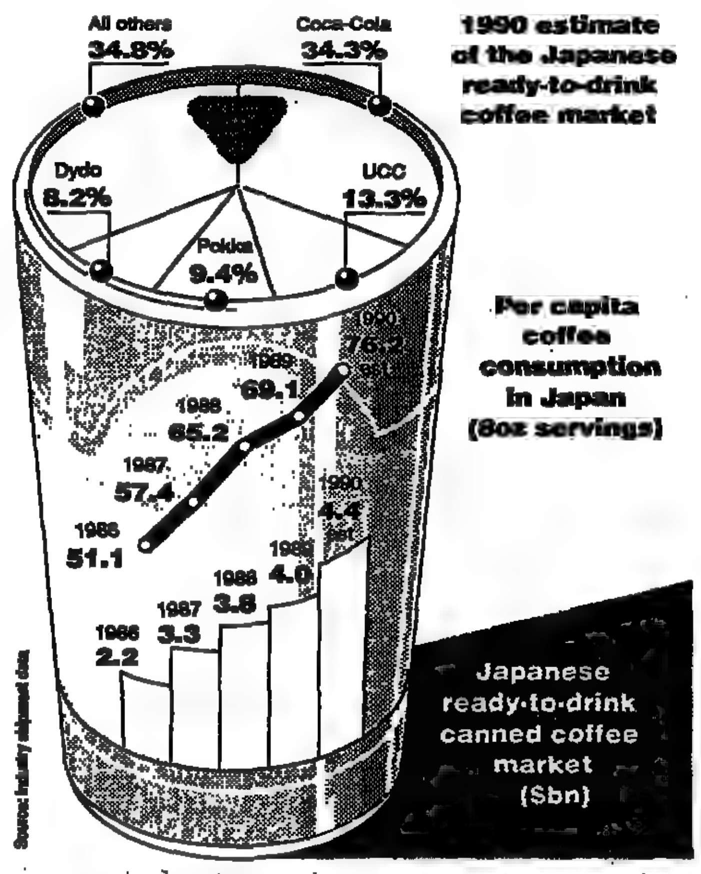
Coca-Cola is also attempting to tap the canned black tea market, which expanded by 97 per cent last year to $500m and has grown by 449 per cent since 1985.

Canned oolong tea also became fashionable after an advertising campaign early this year successfully used images of Chinese martial artists and ballet dancers to highlight the supposed beneficial effects of the drink.

The prospect of unquenched coffee drinkers in foreign markets prompted Pokka, third largest in Japanese canned coffee, to buy a US bottling company, Graton Beverages, almost two years ago. But the company remains cautious about the potential, and will review plans after test marketing in California next spring.

"We will sell from convenience stores and supermarkets in bottles and cans. We are a bit nervous about vending machines," a Pokka spokesman said.

"In Japan you can put them out in the open, but we worry that they would be smashed in the US. We also wonder if the US market is already saturated with coffee."



Basle rule to remain despite squeeze

By David Lascelles in London

THE chairman of the Basle committee of international banking supervisors, Huib Muller, has ruled out any relaxation of the Basle accord on bank capital, despite mounting pressures on the world banking system.

"No one would dream of relaxing the safety standards of a motor car in stormy weather," he said in an interview with the Financial Times.

He was responding to suggestions that supervisors might be forced to relax the capital standards or extend the 1992 deadline for the full implementation of the two-year-old Basle regime. "I have not received a single serious proposal from the official side. Not even bankers are advocating this," he said.

The rules, which determine how much capital banks must have on a risk-based formula, have been blamed for tying up bank resources and heightening the danger of a credit crunch.

Mr Muller, a director of the Dutch central bank, said the Basle rules should not be adapted to suit prevailing economic conditions. "If there is a fall in the availability of credit for macro-economic reasons, then macro-economic instruments should be used to deal with it," he said.

He disclosed that the Basle committee will this week hold its first meeting with insurance industry regulators from leading industrial countries.

One of the main items on the committee's agenda is how to deal with the growth of financial conglomerates which combine banking with other types of financial services such as insurance and securities. The committee already holds regular meetings with securities supervisors.

Next year, the Basle committee also expects to produce new capital rules covering foreign exchange and interest rate risk, as well as securities trading. Mr Muller stressed that these new rules would not impose additional capital burden on banks, but would be "carved out" of existing requirements.

He was not convinced that a credit crunch was impending, although fears could become self-fulfilling, he said. Generally, he considered the difficulties of the banking industry to be "cyclical" rather than fundamental. However, Mr Muller said he was concerned about the dangers of excessive competition in the banking industry, and he favoured more mergers.

Bank falls foul of investor retreat, Page 21

Economics Notebook

World Bank and IMF review the odds on technical gamble

THE World Bank and the International Monetary Fund have succumbed to a bout of soul-searching over whether the technical assistance they provide for countries with economic problems is worth the money or is doing any good.

Although the two organisations are mainly considered sources of financial support, the World Bank in particular has become a large-scale supplier of advice, training and special expertise to developing countries. Yet the disenchantment with what has been achieved through such technical assistance is almost palpable in the bank's Washington headquarters.

Big money is at stake. The World Bank provided $1.4bn worth of technical assistance in its past financial year, representing some 9 per cent of its overall investment in developing countries. It is generally expected that there will be a growing demand for such assistance from the bank and the IMF as eastern Europe and the Soviet Union, if it joins the two bodies, develop market economies.

An article in the latest issue of Finance & Development, the quarterly review produced by the IMF and World Bank, has lifted the veil on a matter of growing concern inside the bank over the past five years.

F&D says studies carried out by the bank since 1986 "confirm that this assistance is not resulting in the expected improvement of skills and abilities of individuals or in the enhanced capacity of institutions" in recipient countries. The experience of donors and recipients of technical assistance, especially in sub-Saharan Africa, "has proved to be highly frustrating," it adds.

The problem partly reflects a shift in the bank's lending away from support for specific projects such as building dams or transport links, to lending for broad-based programmes reforming the economic structures of developing countries.

In the past four to five years, the bank approved 19 "free-standing" technical assistance programmes, worth some $200m for sub-Saharan Africa which were aimed at supporting policy and institutional change. But, say officials, only three were successful.

Another indicator of things amiss is the number of expatriates acting as consultants in sub-Saharan Africa. It is thought that the expatriate population of 70,000 to 100,000 in Africa is bigger than in colonial times. According to Mr Nimrod Raphaeli, technical co-operation adviser of the World Bank, "the hiring of unqualified consultants is perpetuating the dependence of the borrowing nations" in Africa on outside expertise.

So does this sorry tale imply that attempts to spread western expertise will face similar problems in the former Communist countries of eastern Europe?

Perhaps not. The bank has had some success with technical assistance in Asia. A big problem in Africa has been tailoring the technical assistance to the conditions in the recipient countries.

In some cases, African governments have not actively sought the technical assistance programmes provided by the bank and felt that these were foisted on them as a price for financial assistance. Projects may have been too ambitious or sophisticated.

Although eastern Europe faces unprecedented problems in moving from Communist to market-based economies, it has some advantages over Africa. The region's governments are actively seeking help. Standards of education are generally higher.

On the other hand, its requirements are huge. They range from the creation of market-oriented banking systems and functioning stock markets to the establishment of efficient tax systems based on western-style value added tax, income tax and corporation taxes, instead of the present mix of ill defined levies, turnover taxes and subsidies.

One sign of banking being such a global business is that the London offshoot of a Japanese bank can become expert on economic developments in eastern Germany.

Bank of Tokyo Capital Markets has devised a consumer confidence indicator which points to an improvement of sentiment between November and May in the former East Germany. More consumers expect an economic recovery during the next year, their personal financial positions seem to have improved slightly and worries about future pressures on finances have eased.

The 1,000 inhabitants of eastern Germany interviewed for the index were also asked whether they would be likely to move to western Germany in the next 12 months.

A worrying 4.7 per cent said they were either likely or very likely to move. If the poll is representative of the population, it would mean migration next year would be higher than the average 46,000 a month that disrupted eastern Germany's economy in the 11 months before monetary union in July.

Peter Norman

Citicorp to cut 4,000 jobs and streamline consumer business

By Alan Friedman in New York

CITICORP, the largest US commercial bank in terms of assets, is planning to cut about 4,000 jobs from its corporate lending business in the US, Europe and Japan.

In a separate development, the bank said yesterday that it also plans to restructure its consumer banking business worldwide.

Mr John Reed, the Citicorp chairman, said staff reductions on the corporate side would amount to 25 per cent of the division's 17,000 employees. This is twice the number the bank announced earlier this year, suggesting that the worsening climate for corporate business has caused the bank to rethink its cost savings strategy.

The cuts will occur over the next two years and should result in cost savings of $300m to $400m. Less than 1,000 of the cuts will have occurred by the end of the year.

Citicorp said yesterday that the restructuring of its consumer banking activities would eventually lower costs in this area, but the move was aimed mainly at a strategic rationalisation of back office costs in US and European branch banking.

Mr Tom Jones, the senior Citicorp executive in charge of finance, said yesterday the bank had already rationalised back office costs on the credit card side of its US operations. It now plans to pursue a similar strategy on the branch banking side by linking more US and European back office operations. "What we hope is that this will minimise future cost growth in consumer banking," Mr Jones explained.

Citicorp could not quantify any eventual cost savings on the consumer side.

Some 65,000 of the bank's 90,000 workforce are employed in this division. The bank has 700 branches and mortgage offices in the US, plus a further 1,133 branches in 36 other countries.

Gloom on profits

By Roy Perry in London

BRITISH institutional fund managers have sharply lowered their expectations of UK companies in the last few weeks and now expect earnings of UK-listed companies to fall next year.

Two months ago, they were forecasting earnings per share growth of 4.5 per cent, but the latest survey by the Gallup organisation shows expectations have diminished with the economic climate.

A fall of 0.2 per cent in earnings per share is the latest prediction.

Dividend growth is also downgraded with fund managers looking for an average rise of 4.1 per cent in 1991, compared with 6.1 per cent in the October survey.

UK equities, however, remain the most popular area of asset class for new investment. Some 54 per cent of 101 institutions questioned in the monthly survey sponsored by Smith New Court, the securities house, between December 3 and 4 plan to increase holdings. The corresponding figure last month was 50 per cent.

IMI seeks move into US aero components market

By Charles Leadbeater

IMI, the Midlands-based engineering group, is drawing up plans for further international expansion with ventures which would significantly increase its presence in both the US and the Far East.

In the US, the group is searching for ways to break into the aerospace components market, with its high-quality titanium products used in aero engines.

Its latest titanium alloy – known as A3,4 – is being tested by both General Electric and Pratt & Whitney, the US aero engine makers. They have told IMI it would have to set up local manufacturing to become a long-term supplier.

Mr Gary Allen, chief executive of IMI, said the company was exploring a range of options to expand in the US, including licensing the acquisition of a US titanium maker, investment in a greenfield manufacturing facility, or a joint venture with a US producer. The formation of a joint venture is thought to be the most likely route it will take.

Orders from General Electric and Pratt & Whitney, the world's largest aero engine makers, would be a highly significant step forward for IMI, which is heavily dependent on Rolls-Royce, the British aero engine maker which takes the lion's share of IMI's titanium output. The A34, which the US groups have been testing for several months, is being incorporated into Rolls-Royce's new high thrust Trent engine.

IMI believes titanium will present a growing competitive challenge to steel as a material used in parts of aero engines which reach very high temperatures. Titanium is also highly corrosion-resistant and relatively light.

IMI already has extensive US operations, manufacturing drinks dispensers and fluid power systems. It recently expanded its US aerospace activities by winning an order from Boeing, which could be worth $50m, for air-conditioning systems for Boeing's new 777 airliner.

Mr Allen said the group is also drawing up plans to expand significantly its activities in the Far East, where IMI has been relatively weak. The company has just bought a prestige office-building in Singapore to provide a base for its expanding operations.

The group is also set to go ahead with a £26m investment in the second stage of its Holford industrial estate development, which has reclaimed large tracts of under-utilised land at its Witton site, near Birmingham.

The 37-acre second stage of the project is expected to attract a £6m grant from the Department of the Environment.

Low orders expose loss of £0.86m at Leica

By Richard Gourlay

LEICA, the company formed in April from the merger of Cambridge Instruments of the UK and Wild Leitz of Switzerland, and is named after the world's earliest 35mm camera, yesterday has reported a small pre-tax loss of £859,000 from sales of £251m in the half-year to September 29, its first full reporting period.

Dr Stephan Schmidheiny, chairman of Leica, said the company was making good progress with the reorganisation after the merger but the economic slowdown in the US and weak dollar had resulted in much lower orders than expected.

A comparison of pro-forma figures for the group's businesses showed a £5.5m increase in sales and a near £8m advance in trading profit.

The dividend recommendation is 0.28p, up 8 per cent on the last payment from Cambridge.

Dr Markus Rauh, chief executive, said the merger had been followed by six months of costly restructuring but the figures were slightly better than expected and showed the reorganisation was on target.

In addition to its cameras, Leica is a world leader of instruments and systems for microscopy and surveying.

Half its business is in Europe, where orders remained buoyant especially in Germany, while a new company in Tokyo had helped sales in the Far East, Dr Rauh said.

The rationalisation process had required more than £20m but over 80 per cent of the costs of integration had now been incurred, Dr Rauh said.

Leica incurred an interest charge of £8.2m on net debt that had risen by 5 per cent to more than £100m, giving a gearing of 100 per cent.

However, the company sold a metrology company in Germany for Dm40m and since the period closed had disposed of a defence business in Canada for Can$ 30m.

During the period Dr Schmidheiny, the Swiss businessman, took his stake in Leica to above 80 per cent after the resignation of Dr Terence Gooding, the former chairman of Cambridge from his position as chairman of Leica.

Dr Schmidheiny still had no intention of taking the company private and would sell part of his stake once the price is right, Dr Rauh said.

D-day for Goodman's rescue plan

By Kieran Cooke in Dublin

THE SAGA of Goodman International enters what is likely to be its final stages today as banks owed more than I£500m meet to decide whether or not to approve a rescue plan for Ireland and Europe's biggest beef processor and exporter.

As Mr Peter Fitzpatrick, the examiner appointed to Goodman International, has made clear, the banks can accept the bad or they can accept much worse. If they take a workout they can at least hope to receive a majority, though certainly not all, of their lendings to Goodman – though this will be over a seven-year period.

If the banks vote for liquidation they are likely to receive, at best, only 30p in the pound, according to Mr Fitzpatrick.

Tomorrow, he is due to tell the High Court in Dublin whether or not he has succeeded in pushing through the rescue. If the answer is no then liquidation seems inevitable.

The rescue plan includes the sale of various Goodman "non core" assets, a reorganisation of debt into long-term loans, and payment of an I£108m non-performing "rump" debt over a seven-year period.

An Iraqi debt of I£167m is, according to the Fitzpatrick plan, either going to be eventually paid by Baghdad or satisfied by a court action being undertaken by Goodman against the Irish government for the cancellation of various export insurance guarantees covering trade with Iraq.

While many banks seem to accept they have no choice but to go along with the rescue plan, the outcome of today's meeting is by no means certain. Some banks want the government to help in the rescue by paying interest, particularly on the Iraqi debt.

However, with a court action pending (the government withdrew export insurance from Goodman after various "statistical discrepancies" had been found) the state is most unlikely to help Goodman.

Mr Larry Goodman, head of

Larry Goodman: upset many politicians and farmers

the privately-held group, is not popular with many Irish politicians. In 1987 he promised what was described as one of the biggest industrial development plans in Irish history. The government enthusiastically supported him,promising funds for the enterprise. The plans came to nothing.

The government says the financial mess Goodman is now in was caused not by the Iraqi situation but by speculative investments on the London Stock Exchange (in Unigate and Berisford).

The Irish farming community also seems to have turned against Goodman. Farmers accuse beef producers like Goodman of profiteering: the main opposition party in the Irish parliament has called for the break up of the Goodman group to prevent what it called uncompetitive practices.

Banks are unhappy about the growing cost of the attempted Goodman bale out and clauses in the rescue plan which promise Mr Goodman immunity from any future prosecution by creditor banks.

Meanwhile the rescue plan could come tumbling down if an action by Banco Bilbao to liquidate Goodman's UK assets is successful. Banco Bilbao, owed I£10m by Goodman, is due to start its action in the Belfast High Court tomorrow.

Midland and Hongkong decide

By David Lascelles, Banking Editor

THE BOARDS of the Midland Bank and the Hongkong and Shanghai Bank are due to make their final decisions on whether to continue their three-year-old engagement this week.

They are expected to decide not to extend their formal agreement which fixes the Hongkong Bank's stake in Midland at 14.9 per cent. This expires on December 22.

The announcement may say that the two banks intend to continue their co-operation with a view to exploring a merger at some future date.

However, any decision to drop their formal ties is certain to be seen in the market as a weakening of their commitment to each other.

Expiry of the agreement would free the Hongkong Bank to sell its stake in Midland, releasing a wave of speculation over the future of the UK's third largest clearing bank.

Analysts believe that Midland, the weakest of the Big Four, would have to find a new partner or allow itself to be taken over.

Speculation has centred on one of the other Big Four, or on leading Continental banks keen to gain a toehold in the UK market. US and Japanese banks are believed to be out of the running because of their current local problems.

Hongkong Bank would also need a new partner ahead of the colony's reunification with China in 1997.

A possibility would be Wells Fargo, the California Bank with which it already has a co-operation agreement, and whose Pacific Ocean focus creates a logical link.

Rodime to end its remaining production at Glenrothes

By James Buxton, Scottish Correspondent

RODIME, the Scottish-based computer disk drive maker, is to end its remaining manufacturing operations in Glenrothes, Fife, because of continuing losses. All manufacturing is to be concentrated at the Singapore plant and 90 of the 240 employees at Glenrothes will lose their jobs.

Mr Peter Bailey, the managing director who took over last year as part of a large scale financial rescue of Rodime, said the measures were required to reduce overheads and improve manufacturing efficiencies because the company's core business was continuing to operate at a loss.

The company, which is quoted in London, said its manufacturing had been adversely affected by problems experienced by a "critical vendor" of components which it did not name.

The company had not made a profit since 1985 and was providing $5.5m to cover the restructuring costs in the fourth quarter of the year ended September 30 1990, for which it should announce results next month. In the first nine months of this year it incurred a loss of $11.3m.

Rodime would stop manufacturing at Glenrothes at the end of January. The plant would continue as the main design and product engineering centre for the company and take on responsibility for all Rodime's worldwide repair functions.

All Rodime's products would be made in Singapore except for its new 120 megabyte 3.5 inch disk drive which was being manufactured in Japan by Victor Company (JVC). The company's head of operations would move to Singapore.

Mr Bailey said plans to introduce an automated manufacturing production line at Glenrothes by 1992 would continue, in order to take advantage of being in the EC. The Scottish location had advantages as an R & D base because of low staff turnover compared with Silicon Valley in California.

United Industs profit halved

High interest charges and a downturn in certain subsidiaries led to the first half pre-tax profit at United Industries being halved. And the interim dividend is cut from 1.2p to 0.5p.

Turnover in the six months ended October 6 1990 fell from £22.45m to £21.47m and the profit slumped from £1.38m to £693,000. Earnings per share dropped to 1.41p (2.54p).

Interest took £437,000 more and while the materials handling division maintained profitability at operating levels, other sections did not perform so satisfactorily.

That was particularly the case in the springs division where reductions in customers' requirements had a "most marked effect".

Action had been taken to reduce operating costs.

Xtra-Vision deep into red with I£9m losses

By David Owen

XTRA-VISION, the Dublin-based video rental company which was recently approached by Cambridge Group with a view to a possible offer, has reported heavy interim losses following revisions to its tape depreciation policy.

Taxable loss for the six months to July 31 totalled I£8.94m, against a profit of I£1.05m last time.

The loss included an exceptional charge of I£5.79m, principally relating to the changed depreciation policy.

Under the new policy, tapes of new release feature films are to be written down to an estimated residual value over six months, with other tapes written down over 18 months. Previously, depreciation of all cassettes was over 30 months.

The group said that it had decided to concentrate resources on its Republic of Ireland operations and on its Videosmith operation in Boston. Consequently, its British and Northern Ireland interests and the bulk of its Video Library chain would be disposed of.

This resulted in a below-the-line charge of £14.2m, which the group said might be subject to change on completion of the disposal programme.

Loss per share was 8.41p, against earnings of 1.36p.

Jones Stroud sees downturn

Jones Stroud, which makes materials and accessories for the textile and electrical industries, is expecting profits of around £5.4m for the year ending March 31 1991. They would compare with £6.22m last time.

The six months ended September 30 1990 produced £2.7m pre-tax, against the corresponding £3.46m and much the same as the second half of that year, as expected.

The second half of the current year should be similar to the first. On that basis the dividend would be held at 8p, and an unchanged interim of 3p is declared.

Turnover in the half year slipped to £30.07m (£30.32m) and trading profit fell to £2.65m (£3.22m). Earnings per share were 9.53p (11.58p).

Clarke Hooper bucks trend with 5% rise

By Alice Rawsthorn

Clarke Hooper, the marketing services company, has bucked the slump in its sector by increasing pre-tax profits by 5 per cent from £1.65m to £1.73m in the six months to October 31.

Mr Barry Clarke, chairman, said sales promotion in the UK had been been affected by the recession, but this had been countered by a strong performance from the North American companies.

Clarke Hooper has expanded its North American interests by buying the Michael Peters design business in New York from the receivers. It is paying $50,000 (£25,000) and will provide working capital of $250,000.

Group turnover rose to £27.71m (£27.4m). Profits before interest and tax slipped to £1.73m (£1.74m) but the interest charge fell to £6,000 (£98,000). Earnings per share rose to 7.1p (6.5p). The interim dividend is 1.7p (1.6p).

Boscombe Property returns to black

Boscombe Property has returned to the black in the first half to September 30, reporting pre-tax profits of £124,866, against losses of £32,678.

Earnings worked through at 92.12p (losses 34.43p) per share and, as already announced, the interim dividend was raised from 25p to 40p.

Wiggins subsides to loss of £889,000

Wiggins Group, the housebuilder and property developer, has announced increased losses on sales down from £10.79m to £6.92m in the six months to September 30.

Operating profit before exceptional items was £102,000 (£693,000), but after interest payable of £991,000, compared with £1.54m, pre-tax losses emerged up from £806,000 to £889,000.

There is again no interim dividend. The loss per share of 5.6p (5.2p).

Several factors put Wilton into loss

Several special factors hit Wilton Group in the first half of 1990, and led to a downturn from a pre-tax profit of £341,000 to a loss of £436,000.

Interest charges rose significantly to £770,000 (£42,000) following the acquisition of Intercounty Properties, the expansion of which had been financed by bank lending. And this time there was a £313,000 write down of quoted investments taken above the line.

A further factor was the investment in Cowan de Groot, which led to representation on that board.

LAST WEEK'S CROSS BORDER DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Martini & Rossi (Switzerland)	Otard (France)	Drinks	£30m est	UK's Bass sells control
Sumitomo Corp (Japan)/ Wales (UK)	Property jv	Office development	£43m	First UK property deal
Sanwa Bank (Japan)/ Michael Duval (US)	Sanwa Duval (jv)	Investment banking	£15m+	Another Wall St deal for Japan
Mitsubishi Corp (Japan)	Phoenix Securities (UK)	Corporate finance	£10m+	20% stake
Hakuhodo (Japan)/subs of Interpublic (US)	Australia (jv)	Advertising	N/A	More Japanese ad expansion
Cadbury Schweppes (UK)	Fafil (Portugal)	Bottling	£12m	Continuing European strat
Sanwa Bank (Japan)/ Bank of China and others	Shanghai Intl Finance Co	Financial services	£5.2m	First such venture since 1949
WH Smith (UK)	Wall to Wall (US)	Music stores	£11.7m	WHS picks plums
Heineken (Holland)	Van Munching (US)	Beer Distr	N/A	Only Heineken can do this
Precision Mecanique Labinal France)	Magnetti Marelli unit (Italy)	Car components	N/A	Sector adjustments continue

Source: FT Mergers & Acquisitions International

The week was dominated by Japanese investment across the globe, writes Brian Bollen. The joint venture was the main vehicle, financial services a favourite target sector.

In the latest investment by a Japanese financial house in Wall St, Sanwa Bank linked with ex-First Boston executive Michael Duval to form a takeover boutique. Sanwa Duval plans to emphasise the building of long-term relationships and strategic deals, but will not form a fund to invest as a principal.

London-based corporate finance specialist Phoenix Securities said the purchase of a 20 per cent stake by Mitsubishi Corp will give it a chance to diversify into new areas of corporate finance. Particular objectives are the generation and execution of business between Japan and Europe.

The Japanese ability to take a long-term approach to investment was illustrated by Sumitomo Corp's first property purchase in the UK, a half share in a City of London office development. Putting current market difficulties into perspective, Sumitomo stressed that it takes a 30-year view of investments.

The Australian joint venture between Hakuhodo and Interpublic subsidiary Lintas continues the overseas expansion of Japanese advertising agencies.

The week's shake-ups in Europe's premium drinks industry included Swiss-controlled Martini & Rossi's further expansion of its French activities by buying control of cognac producer Otard from Bass of the UK.

Cadbury Schweppes advanced its strategy of becoming a main player in the European soft drinks market with its purchase of Portuguese bottler Fafil.

Adding to the recent series of takeovers in the European car components industry is Precision Necanique Labinal of France. It is buying Fiat of Italy's automobile wiring activities, more than doubling its sales in the sector.

Dutch brewer Heineken acquired Van Munching, taking to a logical conclusion its long-standing folklorique relationship with the importer which made Heineken the best-selling foreign beer in the US.

FT-A Share Indices changes

THE classification Sub-Committee of the FT-Actuaries Indices has completed the reclassification of individual companies brought about by the creation of three new groups, as announced last month.

Leisure (29) will be renamed Hotels and Leisure.

The following companies move from Leisure to the new Media group (30): Anglia Television Group, Capital Radio, Carlton Communications, Central Independent Television, HTV Group, Scottish Television, Thames Television, TV-am, TVS Entertainment, Yorkshire Television Holdings.

The following companies will join Media from Publishing and Printing (32): Daily Mail & General Trust, EMAP, Maxwell Communication Corporation, Pearson, Reed International, Trinity International Holdings, United Newspapers, Watmoughs (Holdings).

In addition, the following companies will also join Media from the Agencies group (41): Acsis Group, Aegis Group, Blenheim Exhibitions Group, More O'Ferrall, Reuters Holdings, Saatchi & Saatchi, Shandwick, WPP Group.

The Publishing and Printing group will be discontinued. As a result, the following companies will move to the Miscellaneous group (48): De la Rue, Microfilm Reprographic, Microgen Holdings, St Ives, Wace Group.

The existing Agencies group will be discontinued. Five companies currently in the Agencies group are among the constituents of a new Business Services group (new 41).

This group will consist of Automated Security Holdings (formerly in Miscellaneous), BET (formerly in Conglomerates), Hawthorn Leslie (formerly in Miscellaneous), Inchcape (formerly in Overseas Traders), Johnson Group Cleaners (formerly in Miscellaneous), Lep Group (formerly in Transport), Rentokil Group (formerly in Chemicals), Securicor Group (formerly in Miscellaneous), Sketchley (formerly in Miscellaneous).

Christies International will move to the Miscellaneous group (48).

In addition to the companies moving to the new Business Services group, the following companies will move from the Conglomerates group (43): Rank Organisation (to Hotels and Leisure); Hays (to Transport, group 44).

AAH Holdings will move to the Health and Household group (27) from the Miscellaneous group (48).

A new Electricity group will be created (45); this will initially consist of as many of the 12 new regional electricity companies as have become index constituents by December 31.

The Overseas Traders group (91) will be discontinued. Of its constituents, James Finlay and Linton Park will move to Food Manufacturing (25); Paterson Zochonis will move to Health and Household (27); Lonrho will move to Conglomerates (43).

All the changes will come into effect on January 1. The base date for the new groups 30, 41 and 45 will be December 31 1990; the new and amended groups will be shown for the first time in the Financial Times on January 3.

● Changes to the FT-Actuaries Fixed Interest Indices, which will also take effect on January 3, will be announced separately.

COMPANIES AND FINANCE

Corks pop over FFr3.1bn champagne deal

William Dawkins reports on BSN's sale of Pommery and Lanson to LVMH

Mr Antoine Riboud, the grizzled 71-year-old founder chairman of BSN, Europe's third largest foods group, is affectionately nicknamed the old fox in Parisian financial circles.

So it is no surprise that he has just found something in common with Mr Bernard Arnault, the 41-year-old chairman of LVMH, the drinks and luxury goods giant. He is sometimes referred to as a young wolf by rivals who have been out-run by Mr Arnault on his way to the top.

The old fox and the young wolf were certainly both licking their chops with satisfaction on Friday evening, when they met in an elegant Parisian hotel to announce that BSN is to sell Pommery and Lanson, its two champagne brands, to LVMH for FFr3.1bn ($62m).

The sale, fixed up in less than a fortnight by Lazard Frères, the merchant bank which dominates the French acquisitions scene, lifts LVMH's share of the world champagne market from 18.6 per cent to 24 per cent. Its eight champagne brands now represent a force more than three times the size of LVMH's nearest single competitor, Seagram, the Canadian drinks company, which controls Mumm and Perrier-Jouet.

Several alternative US and UK suitors were disappointed. But Mr Riboud says he saw an advantage in selling to the company he considered knew the industry best. He jokes, referring to the capital of the Champagne region: "Rheims cathedral can only fall into French hands."

The deal allows BSN to make a big dent in the FFr14.4bn long-term debts which it had built up to finance a spectacular takeover spree over the past two years, climaxing with the acquisition of Nabisco's biscuits divisions. Borrowings represent a hefty 73 per cent of shareholders' funds, saddling BSN with an interest payments bill which was the main feature in a lower than expected 7 per cent net profits growth for the first half of this year.

It is by far the largest of BSN's disposals since Mr Riboud first announced in September that he wanted to pull out of peripheral businesses to "sharpen" BSN's strategy in response to the economic slowdown.

Since then, he has raised FFr1.5bn from the sales of BSN's US biscuit division, Belin Surgelés, the frozen cake and pastry maker and a stake in Havas, the French advertising and communications group. So most Paris stockbrokers had already guessed what was up as soon as they heard there was to be an announcement – and BSN's share price rose by 5 per cent in anticipation.

This is a reasonably honourable retreat from a sector in which Mr Riboud admits he was unable to win the same market position he demands for BSN's main products. The food group is first or second on the world or European markets in dairy products, mineral waters, biscuits, pasta and beer, through brands like Danone, Evian, Huntley & Palmers, Panzani and Kronenbourg. Yet BSN's champagne business,

Antoine Riboud: plans to sharpen strategy

Bernard Arnault: focusing on efficient distribution

acquired six years ago, brought it a mere 5.4 per cent share of the world market.

For BSN, this is a good moment to cut and run from champagne because many analysts, including LVMH, believe that the market is heading for a downturn in the US and Europe. On top of this, grape prices have risen by a quarter this year. This is due to the breakdown of the traditional agreement under which French growers undertook to supply a pre-arranged proportion of their crops to champagne houses, plus a smaller than expected 1990 harvest.

Yet for LVMH, an acquisition of this type is exactly in line with the strategy being followed by most of the international drinks industry. They are focusing increasingly on efficient distribution as the important feature of building brand strength.

LVMH will distribute Pommery and Lanson through the same networks as its six other champagne brands, Moët & Chandon, Veuve Cliquot, Mercier, Canard-Duchêne, Ruinart and Henriot. In this way, it stands a chance of marketing Pommery and Lanson more coherently with better economies of scale than were available to BSN, which used to boast that it distributed champagne, beer and mineral water on the same networks.

BSN's drinks industry competitors increasingly believe that the way to protect brand image is to keep a number of brands with the same kind of identity in the same network, ideally under their own control. Mr Riboud recognises that his champagne businesses were at "a big disadvantage" against drinks companies with a wider range of brands in their cupboards. The first benefit should be in the US and Asia, where Pommery and Lanson are hardly sold but where LVMH brands are strong.

Pommery and Lanson made a FFr80m net profit on sales of nearly FFr1bn last year, which Mr Riboud reckoned "was insufficient in relation to their value". LVMH might be able to get a better return, but even so those figures indicate that it is paying an extremely steep looking 38.7 times last year's earnings for Pommery and Lanson, compared with the price earnings ratio of 15 on which LVMH's own shares stood on Friday.

However, the deal also includes a stock of 50m bottles, three and a half times this year's Pommery and Lanson deliveries, and 500 hectares of priceless vineyard. LVMH has 150m bottles in stock.

The deal will lift LVMH's champagne sales from FFr5.1bn to FFr6.1bn, around 30 per cent of last year's FFr19.6bn group turnover. The impact on BSN's business structure is small, for champagne represented a mere 2 per cent of the food group's FFr48.7bn sales last year.

This exchange between two giants of the champagne industry could be a worrying sign for the dwindling number of small family-owned champagne houses left in the region. A recent Bank of France study drew attention to how the champagne giants like LVMH and Seagram are growing at their expense, because they are better able to support the weight of investment required. The decision of a powerful player like BSN to sell out invites the question: "Who will be next?"

Pirelli to press on with Conti merger plan

By Andrew Fisher in Frankfurt

PIRELLI of Italy intends to press ahead with its proposals to merge its tyre operations with Continental, the German tyre company, despite the rejection of its initial terms.

With a direct 5 per cent stake of its own and the support of institutional investors, Pirelli asserts that it can speak for well over 51 per cent of the Continental shareholders. It argues that the German and Italian institutions backing Pirelli feel the value of their stakes in Continental would be better preserved through an amalgamation.

Both companies have agreed to have their tyre assets valued on the basis of publicly available information. Talks could then take place next year on a possible merger. Previous attempts to start negotiations foundered because Pirelli would not agree to a Continental demand that it refrain from buying or selling its shares or from voting them in shareholders' meetings for two years.

Mr Horst Urban, the chief executive of Continental, said recently it was strange that Pirelli had not identified the source of its support.

Pirelli says it has agreed not to disclose their names, but expects their identity to emerge over coming months as the institutions have to declare shareholdings in their accounts. Two Italian banks, Mediobanca and Sopaf, have already done so. It is understood that Allianz, the big German insurance group, is also on Pirelli's side.

Pirelli has not come out publicly in defence of its proposals, but is upset about the way Continental has chosen to interpret them. It says it was advised against a straight exchange of the assets of Pirelli Tyre Holdings (PTH) for Continental shares because registration delays of up to 18 months could be involved under German law.

Instead, it proposed that Continental buy the PTH assets and finance this purchase partly through a rights issue and debt. Continental says the price of around DM2bn for the PTH assets is too high.

Pirelli counters that this figure was an example not a firm price and that there is scope for negotiation.

Laidlaw aims to maintain 20% growth rate

By Robert Gibbens in Montreal

LAIDLAW, the big Canadian waste management and transport group, says first quarter results are on target and it hopes to maintain average annual growth of 20 per cent in profit.

Laidlaw, which earned US$214.5m on revenues of US$1.75bn in the year ended August 31, is now controlled by Canadian Pacific.

Mr Donald Jackson, the president, said that Laidlaw's balance sheet would remain strong so the company could seize acquisition opportunities. The stock is being listed in New York from today.

NYSE member firms report losses totalling $124m

By Karen Zagor in New York

THE New York Stock Exchange has reported that its member firms doing business with the public, including such big names as Merrill Lynch and Salomon Brothers, posted after-tax third quarter losses of $124m compared with profits of $471m a year earlier.

Although analysts were not surprised by the deterioration, they were surprised by the decline from the second quarter of 1990, when the firms turned in after-tax profits of $467m.

Mr Lazlo Birinyi, a respected financial markets strategist at Birinyi Associates in New York, said the break-even point for the industry in terms of daily trading volume is about 160m to 170m shares, and volume has fallen short of this level during most of the third quarter.

In addition, there has been a tremendous diminution of new issues. "The public is less than enamoured with Wall Street and equities," he said.

However, volume was not much higher in the second quarter, and the main distinction between the second and third quarters was the effect of the Gulf crisis.

After tax profits for the first nine months of 1990 plunged 98.3 per cent to $22m on revenues of $40.76bn against profits of $1.26bn on revenues of $45.09bn last year.

Expenses in the first three quarters of 1990 were $40.72bn against $43.16bn a year earlier.

The New York Stock Exchange said yesterday that about 48 per cent of the 334 firms reporting for the quarter were profitable.

IEP lifts stake in Wm Low

By Maggie Urry

SIR Ron Brierley's IEP Securities has increased its stake in Wm Low, the Dundee-based food retailer, to 20 per cent.

It was increased from 17 per cent by IEP taking up its rights in the current £37.9m cash call and buying a further 1.1m shares in nil-paid form in the market. The total cost to IEP of the extra investment will be about £10m.

Mr Stuart Mitchell, of IEP, said the new investment was consistent with IEP's long-term investment horizons. He said the price had fallen to a level where IEP considered the shares to be good value.

IEP had no current intention of asking for a seat on the board.

Sir Ron, the New Zealand businessman, has held a stake in Low for some years, repeatedly increasing it.

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Evidence of slowing industry piles up

SPECULATION about a cut in interest rates has driven up the gilt-edged securities market for the third week running. Last week, hopes of a peaceful solution to the Gulf crisis, plus further signs of a recession, added to the pressures propelling prices upwards.

On Friday night, the benchmark Treasury 9 per cent bond maturing in 2008 was quoted at 90⅝, up about 1½ points on the previous week. That made a total rise of roughly 5 points since mid-November.

The evidence continued to pile up last week about the degree of the slowdown affecting UK industry. Mr Norman Lamont, the chancellor, told the Commons Treasury and Civil Service Committee on Wednesday that business was "very rough".

The message about economic weakness was reinforced by figures showing that banknotes in circulation rose by just 2.3 per cent in the first week of December compared with the same period last year, a rate well down on previous months.

Since the banknote numbers broadly correlate to M0 – the narrow measure of money supply and an indicator to which the Treasury attaches great importance – the figures may help to convince Mr Lamont about the need to cut the 14 per cent base rate soon to restore growth in the economy.

Such a decision is confidently expected by many participants in the gilt market, perhaps as early as this Friday when the government is expected to announce that the annual rate of inflation went down to about 10 per cent in November compared with 10.9 per cent in October.

Despite the general bullish tone of the gilt market, some worries are beginning to emerge. There is continued concern about the pound's lowly position in the European exchange rate mechanism.

The pound closed on Friday night at about DM2.89, well below its central DM2.95 rate in the ERM. Its weakness might prevent the government from cutting rates as quickly as it wants next year.

Another potential problem for gilts concerns comparisons with other European government securities.

Reflecting the increase in prices, gilt yields have declined in recent weeks to only slightly above the levels of French and German government bonds.

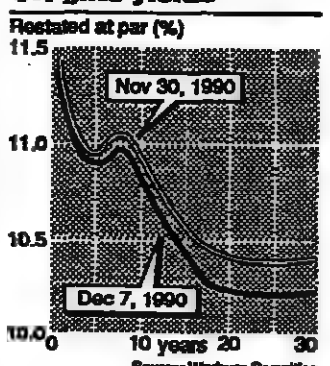
However, inflation in the UK is significantly higher than in France and Germany. And many currency traders believe that the exchange risks attached to sterling are far greater than for the franc or D-Mark, a consequence of the pound being allowed a relatively wide span of movement within its broad, 6 per cent ERM band. This exchange risk would be reduced only if Britain decided to move to a narrower 2.25 per cent band.

Many bond specialists believe that the relatively small differences in yields between UK gilts and the French and German securities cannot be sustained for long, given the special factors related to the British economy. One trader said last week: "The market is going to adjust soon. The economic fundamentals do not support the decrease in gilt yields that we have seen in recent weeks."

Peter Marsh

UK gilts yields

Restated at par (%)



Source: Warburg Securities

GERMAN BONDS

Concern shown over the cost of unity

IT HAS been a turbulent year for the German bond market. With the introduction of the D-Mark to East Germany in July, political unification in October, and the first free elections for a united parliament for nearly 60 years in December, investors and dealers have had a lot to ponder.

The events have been momentous and the implications for the bond market no less startling. Yields went up to 9 per cent in February and have since hovered not far from that level, although last week saw a slight shading after Chancellor Helmut Kohl's expected election victory and hopes of a Middle East settlement.

In fact, the market has tended in the past few days to react more to foreign news than to domestic issues, although the latter remain very much in dealers' minds. "The German market is still more vulnerable than other markets to setbacks and has the greatest domestic worries," says Mr Klaus Baader, German bond analyst with UBS Phillips & Drew in London.

Chief among the market's concerns continues to be the cost of unity and the resulting surge in public spending. "The rise in new public sector borrowing to 5 per cent of gross national product is likely to be a burdening factor for the German capital market in the coming year," according to a review by Trinkaus & Burkhardt, the Düsseldorf bank.

The public sector's net borrowing requirement in 1991 has been forecast by the Finance Ministry in Bonn to reach DM140bn ($93bn) – half of this at Federal government level – after savings in previously planned spending of some DM35bn.

Moreover, the deficit does not include borrowing by the Treuhand, the agency dealing with the privatisation or closure of much of east German industry. This could total some DM10bn next year after DM16bn in 1990.

So far, the bond market has coped well with the rising state borrowing needs. "The market has been relatively unblemished by it all," comments Mr Baader. But the closing weeks of this year could still give it a few more jolts. The strong showing of the Free Democratic Party, the junior coalition partner, in the election has led it to press for lower tax rates in east Germany than in the west. This would deepen the financial hole left by unity, although it might add a much-needed economic stimulus to the new eastern states.

Mr Theo Waigel, the finance minister, reinforced his distaste for a split tax regime in a weekend newspaper interview. "We don't want a divided Germany in the tax area, especially since this would mainly benefit firms which move their headquarters. They would be able to save taxes without creating new jobs. We won't have that."

One area in which no compromise is expected is monetary policy. The Bundesbank has expressed acute concern about the extent to which unity costs are being met through the capital market. To keep the D-Mark strong, both to attract capital and to ward off inflation, it intends to keep interest rates high and monetary policy tight. Dealers will be watching the outcome of this Thursday's Bundesbank meeting to see whether signs of further tightening emerge.

Andrew Fisher

NRI TOKYO BOND INDEX

December 1983 = 100	6/12/90	Average yield† (%)	Last week	12 wks ago	26 wks ago
	PERFORMANCE INDEX				
Overall	148.98	7.36	148.27	141.12	146.40
Government Bonds	146.18	7.27	145.30	137.46	144.49
Municipal Bonds	151.55	7.38	150.97	142.85	148.40
Govt.-guaranteed Bonds	153.99	7.43	153.46	145.94	150.51
Bank Debentures	146.86	7.32	146.46	140.27	143.37
Corporate Bonds	150.47	7.86	150.22	144.83	148.39
Yen-denom. Foreign Bonds	152.12	[illegible]	151.68	149.75	153.63
Government 10-year	6.88		6.99	7.74	6.55

† Estimated par yield

Source: Nomura Research Institute

US MONEY AND CREDIT

Cut in prime rates likely this week

US BANKS are likely to cut their prime rates from 7 per cent to 6½ per cent this week. Last Friday Southwest Bank – the small St Louis bank that traditionally starts a round of prime rate changes – lowered its prime rate by 25 basis points, raising expectations that the big money centre banks will follow suit shortly.

A cut in the prime rate will be the most immediate consequence of Friday's easing of monetary policy by the Federal Reserve, which responded to quite dreadful unemployment figures by injecting funds into the banking system to push the Fed funds rate down by one quarter of a point to 7¼ per cent.

A second likely consequence is a reduction in the discount rate before Christmas, most probably by 50 basis points to 6½ per cent. The sharp rise in unemployment during November should convince the Fed that more help is needed if the US is to escape deep recession. As one government official said of the economy in a rare moment of candour on Friday: "I think we're in trouble."

Although all eyes last week were on the Gulf crisis and the economy, hidden under the deluge of big stories was an event of perhaps greater significance for the international banking system and money markets – the Bank of Japan's decision to accept commercial bills denominated in foreign currencies from Japanese financial institutions as loan collateral.

The move, announced on the same day as the Fed's change in bank reserve requirements, was intended to ease the liquidity shortage in Tokyo. The Fed altered its policy for the same reason.

Both central banks appeared, in the words of Mr Donald Coxe, strategist at Gordon Capital in New York, to have "squared the circle". That is, eased the liquidity crisis in the banking system without cutting short-term interest rates.

"It was a neat move," said Mr Coxe. Banks have found it increasingly difficult in the US and Japan to raise money. To some economists, the liquidity problems plaguing both the US and Japanese banking systems have been at the core of the bear markets in New York and Tokyo.

The liquidity problems had led some money market observers to develop a "nightmare scenario": at the end of this year strong seasonal demand for loans from US companies (looking for money to pay out dividends) is not satisfied by banks unhappy to increase lending. Meanwhile in Tokyo a liquidity shortage forces Japanese banks to sell huge amounts of their dollar-denominated US commercial loans in order to meet the strict collateral requirements needed to borrow money from the Bank of Japan.

The result? A sharp rise in short-term US interest rates which exacerbates the liquidity problems and makes life even tougher for embattled corporate America.

Faced with this, it appears the Fed and the Bank of Japan moved together to restore stability to the banking system. Of course, there was no proof of collaboration, but the announcements of the policy changes were made within five minutes of each other. Just coincidence?

Of the two changes, the Bank of Japan's went virtually unreported but arguably was the more important. The broadening of the list of acceptable collateral for loans means Japanese banks, by far the biggest short-term lenders to US companies (50.5 per cent of the total growth in US commercial and industrial loans between 1984 and 1989 came from Japanese banks) will not be forced to dump dollar holdings because of domestic credit constraints.

But how do we know that the world's banking system is now healthier? For one, following the central bank announcements investors in New York and Tokyo bought bank shares in size in the belief that the liquidity squeeze had been eased.

More important, the "Ted spread" told us so. The Ted spread is the difference in the yield on US Treasury bills and Eurodollars (in this case the spread between March T-bill contracts and March Eurodollar contracts on the Chicago futures markets) and is closely watched as an indicator of international liquidity conditions.

Since the Fed and the Bank of Japan moved on Tuesday, the Ted spread has narrowed 22 basis points as Eurodollar contracts rallied firmly. A move in the spread of that size is rare, and indicates that the markets recognise liquidity in the international banking system has improved significantly.

The move in the Ted spread cannot be dismissed as unimportant with $2.8 trillion (million million) worth of Eurodollars currently sloshing about the world's financial markets.

Patrick Harverson

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	7.86	7.50	7.58	9.42	7.06
Three-month Treasury bills	7.10	7.23	7.26	9.11	7.10
Six-month Treasury bills	7.09	7.35	7.37	9.37	7.09
Three-month prime CDs	7.65	8.30	8.08	10.35	7.65
30-day Commercial Paper	7.70	7.75	7.85	9.95	7.70
90-day Commercial Paper	7.50	8.15	7.88	10.05	7.50

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wks ago
Seven-year Treasury	104⅜	+1⅜	7.94	8.16	8.52
20-year Treasury	110⅜	+2⅜	8.19	8.41	8.65
30-year Treasury	106	+2½	8.18	8.40	8.62

Money supply: In the week ended November 26 M1 rose by $1.8bn to $825.5bn.

FT/AIBD INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price.

Closing prices on December 7

INTERNATIONAL CAPITAL MARKETS

VARIABLE RATE NOTES

Bank falls foul of retreat by investors

BANCO Santander last week became the fifth large bank to see the interest rate margin on a variable rate note (VRN) issue hit a punitive fall-back margin as investors continue to retreat from a market which has provided banks with a useful source of capital.

The $400m VRN issue from Santander was placed on the fall-back margin of 75 basis points over the London interbank offered rate on Wednesday. The deal was launched at a margin of 40 basis points in July.

Now $1.8bn of the total $7.8bn variable rate notes in issue have been placed at fall back margins, rendering them highly illiquid in the hands of investors. Other issues affected are from National Westminster Bank, Bank of Ireland and National Australia Bank.

The interest margin on variable rate notes is set quarterly by the issuer and a remarketing agent, following consultation with investors. At each reset, investors have the option of either accepting the new margin or putting the bonds back to the remarketing agent.

Many investors have been trying to exercise this put option to cut securities holdings in their portfolios. However, once the fall-back margin has been invoked, the investor put option is suspended.

Both strategies have been pursued in the US by issuers of auction-rate preferred shares, on which the interest rate is set by a similar process. Citicorp first raised the interest rate cap to prevent a failed auction and then bought back $275m of its $950m outstanding auction rate capital.

However, under Bank of England capital adequacy regulations, any move to retire a dated variable rate note issue within the first five years of its life would lead to all variable rate notes from that issuer being disqualified as capital.

In the case of NatWest, this would remove $1.7bn of Upper Tier II capital and $1.25bn of Lower Tier II capital from its books.

Simon London

INTERNATIONAL BONDS

Whitbread and Anglian Water provide some relief

THE long-dated sterling bond market showed signs of revival last week, when two sizeable offerings for Whitbread and Anglian Water provided a dose of liquidity. The market had been starved of paper for much of the year, as the lack of new issues was exacerbated by a series of repurchase programmes by borrowers.

Better times may be on the way. Borrowers are likely to be less eager to buy their paper back, as the credit squeeze in the banking market has taught some to value the security of long-term fixed-rate debt.

And lower absolute rates may encourage more companies to borrow. The recent strong performance of the long end of the UK gilts market has pushed down interest costs. Long-gilt yields have fallen to around 10.2 per cent, their lowest since the start of the year.

But most companies will not be rushing to borrow, even though many bankers are advising them that current gilt yields are close enough to their lows, given the uncertainties still likely to beset the market next year. Many are determined to wait at least until the long gilt yield drops below 10 per cent, or more ambitiously until their all-in borrowing costs touch 11 per cent, considerably lower than the 11.70 per cent level achieved by Anglian Water last week.

Even after last week's burst of activity, the long-dated sterling market is still short of paper, following a net reduction of stock this year. During 1990, half a dozen issues totalling just under £1bn emerged. But there have been redemptions of £1.4bn following controversial repurchase programmes by borrowers.

A number of domestic institutions have been forced to invest disproportionately in gilts rather than non-gilts, although they were able to shift some funds into last week's new issues. Institutions were particularly pleased to be able to spread their risk, which was becoming concentrated in certain areas such as property. "[Whitbread and Anglian Water] are both good quality, and involved in industries generally considered to be recession-proof," one investor said.

In addition, the £135m issue of 20-year bonds launched by Whitbread, the UK brewer, is secured on the company's assets. Secured debentures, which give investors recourse to the companies' fixed assets, could become more common as a means of meeting investors' increasingly stringent credit demands. "There will be an increasing yield differential between secured and unsecured borrowings," predicts Mr Eddie O'Sullivan, a director of UBS Phillips & Drew. Companies could save 50 basis points or more by issuing secured rather than unsecured debt.

Although the Anglian deal is not secured, "there is a guarantee from the core business, so it is as close to security as you can get," Mr O'Sullivan adds.

"We have a continuing demand for high quality secured or unsecured non-gilt stock. In the current market, security is preferable," says Mr Chris Barley, an assistant director of Prudential Portfolio Managers.

Any company whose fixed assets can be easily sold off can issue secured debt. Brewers, property companies and investment trusts are typical candidates, but many companies have property which could be used as security.

Mr Martin Packman, director of Baring Brothers, also notes an increasing emphasis on strong covenants, including protection against event risk such as takeover and also gearing limits.

Last week's two big borrowers may not be representative of the market as a whole. Whitbread was able to swap the proceeds of its issue into floating-rate funds, an unusual feat in this sector. It also suggests companies are not yet ready to lock in fixed-rate funds at current levels.

Anglian, which launched £100m of 23-year Eurobonds, was the only water company to be privatised with net debt on its balance sheet, and was expected to be among the first to issue debt. But the other companies may not be hot on Anglian's heels, even though many awarded mandates at the start of the year.

Anglian's cost of funds was around 11.70 per cent, higher than the targets of most other water companies. One treasury official said that in January last year his company could have borrowed at around 11½ per cent, and, because of the sharply inverted yield curve, reinvested the funds for a year or so at a higher rate, further reducing its costs of funds. But yields rose, and if, in retrospect, some of the companies may rue the day they missed that opportunity, they are loath to pay more now.

However, the water companies are still keen to access the long-dated market at some stage, as it provides a useful match for their long-life assets.

Tracy Corrigan

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Yokohama Rubber♦◆	150	1994	4	$4\frac{1}{2}$	100	Yamaichi Int.	4.500
Daiichi Chuo K'Kaisha♦◆	110	1994	4	$4\frac{1}{2}$	100	Daiwa Europe	4.500
Ohbayashi Corp♦	400	1994	4	$(4\frac{7}{8})$	100	Nomura Int.	-
Exp-Imp.Bk Japan◆	300	1996	5	$8\frac{1}{2}$	100	IBJ Int.	8.500
Nichiei Co.♦	130	1994	4	$(4\frac{7}{8})$	100	Yamaichi Int.	-
Nippon Syn.Chemical♦	100	1994	4	$(4\frac{7}{8})$	100	Yamaichi Int.	-
Nippon Soda Co.♦	90	1994	4	$(5\frac{1}{4})$	100	Nikko Secs.	-
Towa Real Estate♦◆	100	1994	4	$4\frac{1}{2}$	100	Nomura Int.	4.500
Sanshin Electronics♦◆	50	1994	4	$4\frac{7}{8}$	100	Daiwa Europe	4.875
Tokyu Dept.Store Co♦	350	1994	4	$(4\frac{7}{8})$	100	Nomura Int.	-
Orica Amsterdam★★◆	40	1995	$4\frac{3}{4}$	8.65	$101\frac{5}{8}$	DKB Int.	8.207
Komatsu Ltd♦◆	400	1994	4	$4\frac{1}{2}$	100	Nomura Int.	4.500
Mitsubishi Motors♦	400	1994	4	$(4\frac{7}{8})$	100	Nikko Secs.	-
Guinness Fin.BV◆	200	1996	5	9	101.82	CSFB	8.536
Nippon Koshua Steel♦	80	1994	4	5	100	Yamaichi Int.	5.000
Dowa Mining Co.♦	120	1994	4	$(4\frac{7}{8})$	100	Nikko Secs.	-
Asahi Chemical N'land◆	14	1994	3.167	3	87.0699	IBJ Int.	7.746
CANADIAN DOLLARS							
Ontario Hydro◆	1bn	1996	5	$10\frac{7}{8}$	99.83	Merrill Lynch	10.921
IBM Canada◆	150	1996	5	11	101	ScotiaMcLeod Inc.	10.731
STERLING							
Guinness Fin.BV◆	150	1996	5	12	101.27	CSFB	11.651
Anglian Water plc◆	100	2014	23	12	99.407	Warburg Secs.	12.085
ECUs							
Swedish Export Credit(j)◆	150	1994	4	$9\frac{3}{8}$	100.38	BTI	9.596
Ente Ferrovie d'Stato◆	500	1998	7	$10\frac{1}{8}$	99.98	Banco Di Roma	10.129
D-MARKS							
Tada Corp♦◆	50	1994	4	$5\frac{1}{8}$	100	Commerzbank	5.125
Gastec Service♦◆	45	1994	4	$5\frac{1}{8}$	100	Nomura Bk GmbH	5.125
Central Leasing(e)★★†◆	75	1995	5	(e)	100	WestLB	-
Snow Brand Foods♦	60	1994	4	$5\frac{1}{8}$	100	Commerzbank	5.125
Misawa Homes Co.♦	80	1995	4	$5\frac{1}{8}$	100	Nomura Bk GmbH	5.125
Deutsche Bk (Lux.)◆	200	1997	7	9	$101\frac{1}{2}$	Deutsche Bk	8.705
FRENCH FRANCS							
Renault Credit Int.(c)◆	800	1993	$2\frac{1}{2}$	$10\frac{1}{2}$	101.05	BNP	9.947
SNCF(g)◆	1.25bn	1997	$6\frac{1}{3}$	$9\frac{1}{4}$	97	CCF	9.888
CNT(p)◆	1.7bn	2000	$9\frac{1}{3}$	10	100.10	CCF	9.985
SWISS FRANCS							
Daito Trust Const.(b)★★§◆	200	1995	-	6	100	Nomura Bk (Switz)	6.088
Linit Ind.(a)★★♦◆	20	1995	-	$5\frac{1}{8}$	100	BSI	5.125
Aitul Corp★★◆	20	1995	-	$8\frac{3}{4}$	100	Bque.Paribas (Suisse)	9.250
Ajikawa Ironworks★★◆	10	1995	-	$8\frac{1}{4}$	$100\frac{1}{8}$	DKB (Schweiz)	8.219
Europaeische Hy'bank★★◆	65	1996	-	$7\frac{5}{8}$	$101\frac{3}{4}$	Bank Leu	7.120
Osaka Godo Co.★★◆	30	1995	-	$8\frac{1}{4}$	$100\frac{1}{8}$	DKB (Schweiz)	8.219
Paltic Corp(h)★★§◆	30	1995	-	6	100	Wirtschafts & Privatbk	6.090
Shinobu Foods(i)★★♦◆	45	1994	-	$5\frac{1}{8}$	100	Nomura Bk (Switz)	5.125
Ginza Yam'taya Co.(l)★★§◆	30	1995	-	6	100	Nomura Bk (Switz)	5.991
EIB(n)◆	150	2001	-	$7\frac{3}{8}$	$101\frac{1}{4}$	UBS	7.124
Pilot Corp★★◆	30	1995	-	$8\frac{1}{4}$	$100\frac{1}{8}$	Wirtschafts & Privatbk	8.219
DSL Bank★★◆	10	1995	-	$7\frac{1}{2}$	$101\frac{1}{2}$	UBS	7.130
LIRE							
World Bank◆	300bn	1998	7	$12\frac{1}{8}$	$101\frac{3}{8}$	Is.Bancario S'Paolo	11.820
PESETAS							
EIB(d)◆	20bn	1997	7	13.35	$101\frac{1}{2}$	Banesto	13.011
ESCUDOS							
EIB◆	12.5bn	1995	5	$15\frac{3}{4}$	$100\frac{3}{4}$	Caixa Ger.d'Depositos	15.523
YEN							
Mitsubishi Motors Corp◆	50bn	1995	5	$7\frac{3}{8}$	101.40	Nikko Secs.	7.033
Orix Ireland Fin.(f)†◆	20bn	1995	$4\frac{1}{4}$	(f)	$101\frac{1}{2}$	Daiwa Europe	-
Union Bk Finland◆	12bn	1993	$2\frac{1}{4}$	7.8	101.27	Mitsui Trust Int.	7.141
Fujitsu Ltd◆	30bn	1997	7	$7\frac{3}{8}$	101.40	Nikko Secs.	7.114
Minolta Europe Fin.BV★★◆	13bn	1995	$4\frac{1}{4}$	$7\frac{1}{2}$	$101\frac{1}{2}$	Daiwa Europe	7.066
Mitsui Real Est.(k)★★†◆	30bn	1997	$6\frac{1}{4}$	(d)	100	Nomura Int.	-
EIB(o)◆	20bn	2000	$9\frac{1}{4}$	$6\frac{5}{8}$	96.10	Daiwa Europe	7.211
LUXEMBOURG FRANCS							
Desimpel BV★★◆	300	1994	4	10	101.55	KBL	9.516
Merrill Lynch Co.Inc.★★◆	500	1994	3	$10\frac{1}{8}$	101.80	Banque UCL	9.409
Idema BV★★◆	600	1994	3	10	102	KBL	9.207
Mitsubishi Bk Europe★★◆	300	1995	$4\frac{1}{4}$	$10\frac{1}{8}$	102	BIL	9.505
BTI(m)◆	150	1997	7	10	$101\frac{3}{4}$	BGL	9.645
Volvo Group Fin.★★◆	1bn	1994	3	$10\frac{1}{8}$	101.95	KBL	9.350
Cofiroute★★◆	600	1997	6	$10\frac{1}{8}$	102.20	Banque Paribas (Lux.)	[illegible]
Tractebel Inv.Int.BV★★◆	1bn	1995	5	$9\frac{3}{4}$	101.85	BGL	9.245

★★Private placement. §Convertible. ♦With equity warrants. †Floating rate note. ⊕Variable rate note. ◆Final terms. a) Callable on 20/6/92 at $101\frac{1}{2}$% decreasing $\frac{1}{4}$% semi-annually. Exercise premium fixed at 2.59%. b) Put option 31/3/93 at $107\frac{1}{8}$% to yield 8.982%. Conversion premium fixed at 2.5%. c) Fungible with existing FFr700mn deal launched June 1990. d) Matador issue. Non-callable. e) Coupon pays 15bp over 6-month Libor. Non-callable. f) Fixed/FRN issue. Coupon pays $8\frac{1}{2}$% for first 3 years, then 6-month Libor plus .15% thereafter. Put option at par on 19/3/93. g) Fungible with existing FFr2.75bn deal. Non-callable. h) Put option 31/3/93 at $107\frac{1}{2}$% to yield 9.009%. Conversion premium fixed at 2.54%. i) Callable 27/12/92 at 102% decreasing $\frac{1}{2}$% semi-annually. Exercise premium fixed at 2.51% j) Fungible with existing Ecu150mn deal. Non-callable. k) Coupon pays Yen Libor plus $\frac{1}{8}$% for first 3-months, then Japanese Long Term Prime Rate minus 20bp thereafter. Non-callable. l) Put option 31/3/93 at $107\frac{1}{8}$% to yield 9.109%. Conversion premium fixed at 2.53%. m) Fungible with existing LuxFr500mn deal launched November 1990. Non-callable. n) Callable after 7 years at 101% declining $\frac{1}{2}$% annually, thereafter o) Fungible with existing Y80bn deal. Non-callable. p) Fungible with existing FFr2bn deal. Non-callable. Note: Yields calculated on AIBD basis

SYNDICATED LOANS

Chemical Bank leads financing of AT&T bid

THE LARGEST syndicated credit for some time was being assembled last week by Chemical Bank in New York to back a $6.1bn hostile cash bid by AT&T for NCR.

Chemical is committing $600m itself to the $6bn financing, on the proviso that there is no disruption to the financial, banking or capital markets. The commitment fee and interest margin on the 364-day financing are said to vary with the company's credit rating; the margin from ⅜ point to ¾ point and the fees from ⅛ per cent to ¼ per cent.

Rating agencies have placed the ratings of AT&T under review following the bid.

Pirelli is raising $200m over seven years through Union Bank of Switzerland and Banca Commerciale Italiana. Some bankers considered as aggressive the commitment fee of ⅛ rising to $\frac{3}{16}$ after five years, and the margin of 27½ basis points for three years, 30 for two years and 32½ for the final two.

Cirinvest is raising $150m in a five-year term loan at an interest margin of ½ percentage point, through Citicorp. Nokia of Finland is arranging a $100m five-year deal through Kansallis-Osake-Pankki and Union Bank of Finland, at a ⅜ point margin. Signed last week were a $250m revolving credit for Bergesen, with a group of banks led by Deutsche, and a £55m refinancing for CE Heath of the UK through Lloyds.

Stephen Fidler

EUROMARKET TURNOVER ($m)

Primary Market

	Straights	Conv	FRN	Other
US$	147.1	0.0	540.0	13,126.0
Prev	325.5	0.0	328.3	11,028.4
Other	2,298.1	0.0	169.4	6,474.8
Prev	3,045.8	1.4	456.0	7,713.7

Secondary Market

	Straights	Conv	FRN	Other
US$	19,704.0	809.9	6,934.8	9,686.9
Prev	18,312.9	609.1	6,677.1	8,461.0
Other	26,251.9	1,258.2	7,532.9	60,841.0
Prev	26,717.9	1,176.5	8,893.0	55,500.1

	Cedel	Euroclear	Total
US$	22,358.8	28,589.9	50,948.7
Prev	16,812.0	28,930.3	45,742.3
Other	45,005.0	59,821.3	104,826.3
Prev	40,270.3	63,234.1	103,504.4

Week to December 6, 1990

Source: AIBD

WORLD STOCK MARKETS

INDICES

NEW YORK

DOW JONES	Dec. 7	Dec. 6	Dec. 5	Dec. 4	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
‡Industrials	2590.10	2602.48	2610.40	2579.70	2999.75 (16/7)	2365.10 (11/10)	2999.75 (16/7/90)	41.22 (2/7/32)
Home Bonds	[illegible]	[illegible]	90.67	90.86	93.04 (3/1)	88.44 (24/9)	—	—
Transport	909.67	913.79	905.67	881.84	1212.77 (6/6)	821.93 (17/10)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	210.07	211.27	212.71	212.71	236.23 (2/1)	190.96 (24/8)	236.23 (2/1/90)	10.50 (8/4/32)

‡Day's High 2618.07 (2656.40) Low 2571.78 (2589.36)

STANDARD AND POOR'S

	Dec. 7	Dec. 6	Dec. 5	Dec. 4	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	327.75	329.07	329.92	326.35	368.95 (16/7)	295.46 (11/10)	368.95 (16/7/90)	4.40 (1/6/32)
Industrials	383.70	384.86	385.33	381.95	437.37 (16/7)	346.86 (11/10)	437.37 (16/7/90)	3.62 (21/6/32)
Financial	23.41	23.09	24.27	23.14	31.37 (3/1)	18.80 (29/10)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	179.07	179.71	180.11	178.19	201.13 (16/7)	162.20 (11/10)	201.13 (16/7/90)	4.46 (25/4/42)
Amex Mkt. Value	306.45	306.35	305.41	302.64	382.45 (5/1)	288.07 (30/10)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	371.54	372.29	370.87	364.12	469.60 (16/7)	325.44 (16/10)	485.73 (9/10/89)	54.87 (31/10/72)

	Nov.30	Nov 23	Nov.16	year ago (approx.)
Dow Industrial Div. Yield	4.01	4.06	4.01	3.87

	Dec. 5	Nov.28	Nov.21	year ago (approx.)
S & P Industrial div. yield	3.31	3.42	3.44	[illegible]
S & P Indl. P/E ratio	15.89	15.37	15.29	[illegible]

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Citicorp	3,267,700	14¼	- ⅛
Humana	2,680,800	43½	- 1¾
Philip Morris	2,014,700	49¾	- ¼
IBM	1,907,900	112½	+ ⅝
Upjohn	1,839,900	39⅞	+ ½
NCR	1,765,100	91¼	- 1
Am T & T	1,742,700	29⅞	- ⅛
Fannie Mae	1,685,800	33¾	+ ⅛
Gen Motors	1,642,900	36½	- ¼
Gen Electric	1,613,000	57½	---

TRADING ACTIVITY

† Volume (Millions)	Dec. 7	Dec. 6	Dec. 5
New York	164.950	256.380	205.820
Amex	10.466	17.179	12.896
NASDAQ	(u)	109.444	140.084
Issues Traded	2,020	2,015	2,002
Rises	745	866	1,064
Falls	771	641	489
Unchanged	504	498	449
New Highs	15	58	31
New Lows	38	31	36

CANADA

TORONTO	Dec. 7	Dec. 6	Dec. 5	Dec. 4	1990 HIGH	1990 LOW
Metals & Minerals	2756.89	2774.13	2738.43	2670.70	3453.05 (4/1)	2486.60 (8/11)
Composite	3231.56	3239.37	3226.52	3189.76	4009.47 (3/1)	3009.91 (16/10)
MONTREAL Portfolio	1727.70	1732.41	1725.74	1699.86	2068.90 (3/1)	1607.24 (16/10)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto Indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Friday 7 December 1990

	Stocks Traded	Closing Prices	Change on day
Nippon Steel	33.9m	425	+25
Kyosan Elec	12.4m	1,119	-49
M'bishi Heavy	11.8m	694	+36
Sumitomo Metal	10.7m	434	+20
NKK	10.4m	398	+20
Mitsui Ship	9.6m	512	+47
Tokio Mne&Fre	8.5m	1,400	+90
Marubeni	8.1m	656	+65
Hitachi	6.7m	1,140	+60
K'saki Steel	6.1m	420	+21

FT MANAGED FUNDS SERVICE

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AUTHORISED UNIT TRUSTS

Abbey Unit Tst Mngrs (1000)H

80 Holdenhurst Rd, Bournemouth 0345 717373

Brown Shipley & Co Ltd (1000)F

Brycourt Unit Tst Mngmt Ltd (1400)F

Buckmaster Mangmt Co Ltd (1200)H

15 St Botolph Street, London EC3A 7JJ 071-247 4543

Abtrust Management Ltd (1200)H

10 Queens Terrace, Aberdeen AB9 1QJ

Marlin Currie Unit Trusts Ltd (0905)H

Matheson Unit Trust Managers Ltd (1200)H

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: [illegible]

OFFER PRICE: [illegible]

BID PRICE: [illegible]

CANCELLATION PRICE: [illegible]

TIME: [illegible]

HISTORIC PRICING: [illegible]

FORWARD PRICING: [illegible]

SCHEME PARTICULARS AND REPORTS: [illegible]

[illegible]

Centre Point,

[illegible] New Oxford Street, London [illegible]

Tel: 071-[illegible]

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TSB Unit Trusts (1200)H

Charlton Pl, Andover, Hants. SP10 1RE 0264 346794

Unit Name	Init Chrge	Canc Price	Bid Price	Offer Price	Yield Gr's	City- line
TSB American	6	105.48	106.22	112.99	0.88	41457
Do Accum	6	115.3	116.1	123.51	0.88	41458
TSB Brit Growth	6	64.73	65.64	69.82	3.9	41459
Do Accum	6	71.57	72.57	77.2	3.9	41460
TSB European	6	67.38	67.38	71.68	1.25	41461
Do Accum	6	69.82	69.82	74.27	1.25	41462
TSB Extra Income	6	141.67	144.74	153.97	6.06	41463
Do Accum	6	200.36	204.71	217.77	6.06	41464
TSB Smaller Cos	6	37.83	39.59	42.11	3.34	41465
Do Accum	6	39.66	41.51	44.15	3.34	41466
TSB General	6	199.55	199.55	212.28	4.17	41467
Do Accum	6	365.83	365.83	389.18	4.17	41468
TSB Premier Income	5	41.56	42.2	43.95	9.39	41469
Do Accum	5	73.08	74.19	77.28	9.39	41470
TSB Income	6	263.61	268.76xd	285.91	5.65	41471
Do Accum	6	490.07	499.64xd	531.53	5.65	41472
TSB Pacific	6	191.16	191.16	203.36	0.49	41473
Do Accum	6	198.9	198.9	211.59	0.49	41474
TSB International	6	329.38	329.38xd	350.4	1.63	41475
Do Accum	6	422.49	422.49xd	449.45	1.63	41476
TSB Nat Resources	6	53.31	53.31	56.71	1.41	41477
Do Accum	6	57.83	57.83	61.52	1.41	41478
TSB Sletd Opps	6	70.04	71.75	76.32	3.85	41479
Do Accum	6	83.59	85.63	91.09	3.85	41480
Environmental Inv	6	40.58	41.29	43.92	2.71	46849
Do Accum	6	41.51	42.24	44.93	2.71	46850
TSB Selector	6	42.34	43.06xd	45.8	4.61	47660
Do Accum	6	43.63	44.37	47.2	4.61	47661
TSB High Income	6	45.77	46.35	49.3	6.39	[illegible]
Do Accum	6	45.77	46.35	49.3	6.39	[illegible]
TSB Intl Income	6	47.14	47.32	50.34	7.05	[illegible]
Do Accum	6	47.14	47.32	50.34	7.05	[illegible]
TSB Selector Income	6	45.22	45.69	48.6	6.79	[illegible]
Do Accum	6	45.22	45.69	48.6	6.79	[illegible]

Target Trust Mngrs Ltd (1600)F

Target Hse, Gatehouse Rd, Aylesbury, Bucks.

Admin 0296 394000 Dealing: 0296 312156

Unit Name	Init Chrge	Canc Price	Bid Price	Offer Price	Yield Gr's	City- line
American Eagle	5	60.71	60.71xd	64.81	1.19	[illegible]
Australia	5	5.309	5.309	5.683	4.69	[illegible]
Equity	5	145.7	145.7	156.5	4.92	[illegible]
Euro Spec Sits	5	98.80	98.80	106.1	0.65	[illegible]

M & G Securities Ltd

	Bid Price	Offer Price	Yield Gross	City- line
Charibond	98.4	98.4xd	10.98	40883
(Accum Units)	521.4	521.4	10.98	40884
NAACIF Dec 5	–	39.7xd	10.12	46917

MIM Ltd

Exempt Funds

	Bid Price	Offer Price	Yield Gross	City- line
Intl Mngd P'Folio	972.0	1049.8	–	46968
Mngd Pens (Acc)	57.4	61.2	–	41007

Morgan Grenfell Unit Trust Managers Ltd

Exempt Funds

	Bid Price	Offer Price	Yield Gross	City- line
UK Equity † Nov 30	112.8	120.9	3.18	46925
UK Small Co † Nov 30	432.4	473.9	2.25	46926
Fixed Interest † Nov 30	100.1	105.2	8.40	46920
US Small Co Nov 30	101.9	108.9	0.60	46927
Managed Nov 30	96.22	102.2	2.56	46924
Intl Bond Nov 30	105.8	112.5	8.10	47790
Japan Nov 30	60.21	64.46	0.99	47877
European Nov 30	78.75	84.09	1.74	47876
Nth American Nov 30	80.02	85.80	1.62	47878

Murray Johnstone UT Mngmt

Murray Exempt Funds

	Bid Price	Offer Price	Yield Gross	City- line
Amer Expt Dec 5	38.9	40.4	2.67	41064
Euro Expt Dec 5	47.2	49.5	2.45	41065
Fixed Int Ex Dec 5	43.6	44.7xd	10.78	46594
Japan Expt Dec 5	36.0	37.8xd	0.71	41066
Managed Ex Dec 6	38.1	39.6xd	5.05	41067
SE Asia Expt Dec 5	54.5	57.2	4.28	41068
Sm Cos Expt Dec 5	28.1	29.5xd	6.09	41069
UK Eqty Ex Dec 5	36.2	38.0	4.59	41070

Phillips & Drew Fund Management Ltd

	Bid Price	Offer Price	Yield Gross	City- line
Small Co's Dec 5	592.63	634.6	5.78	41138
Do Accum	659.2	705.8	5.78	41139
Int Expt Dec 5	147.9	150.1	3.14	41140
UK Index Dec 5	999.0	1019	6.07	46945
Do Accum	1056	1076	6.07	46946
Convertible Nov 30	79.70	82.22	8.54	46938
Warburg UK Index Dec 3	639.4	648.0	3.27	47887
Do Accum	639.4	648.0	3.27	47888
Japan Index Dec 3	492.6	499.9	0.68	47881

[illegible]

INSURANCES

[illegible]

OTHER UK UNIT TRUSTS

[illegible]

Bid Prices Only, Offer prices where applicable approx 5% higher.

Continued on next page

FT MANAGED FUNDS SERVICE

● Current Unit Trust Prices are available on FT Cityline. To obtain your free Unit Trust Code Booklet ring the FT Cityline help desk on 071-925-2128

N & P Life Assurance Ltd
6-7 Bedford Row, London, WC1R 4UJ 071-430 2348

	Bid Price	Offer Price	Yield Gross	City-line
Life Managed Fd	91.3	96.1	–	41924
Pension Managed Fd	87.7	92.3	–	41926
Life Deposit Fd	102.6	108.0	–	41923
Pension Deposit Fd	105.8	111.4	–	41925

National Financial Management Corp PLC
72 Gatehouse Rd, Aylesbury, HP19 3XJ 0296 395539

	Bid Price	Offer Price	Yield Gross	City-line
Life Funds				
Managed Cautionary	97.9	103.1	–	47150
Managed Growth	119.9	126.3	–	47151
Managed Opportunity	114.2	120.2	–	47152
NFMC Target Financial	88.2	92.9	–	47153
Pension Funds				
Managed Cautionary	103.7	109.2	–	47154
Managed Growth	122.0	128.5	–	47155
Managed Opportunity	115.2	121.3	–	47156
NFMC Target Mngd Pen.	1346.5	1417.4	–	47157

National Mutual Life
The Priory, Priory Pk, Hitchin, SG5 2DW 0462 422422

	Bid Price	Offer Price	Yield Gross	City-line
Harvester Pension Funds				
Managed	140.7	148.2	–	43141
UK Equity	146.3	154.1	–	43135
Overseas Equity	111.9	117.8	–	43136
Fixed Interest	132.8	139.8	–	43137
Property	126.4	133.1	–	43138
Index Linked	143.5	151.1	–	43139
Deposit	146.9	154.7	–	43140
With Profits (B)	123.5	130.1	–	44128

Property Equity & Life Ass. Co
Baxter Ave, Southend SS2 6QH 0702 333433

	Bid Price	Offer Price	Yield Gross	City-line
Int. Man Pension Fd	148.4	156.2	–	43369
Int.Man Cncy.Bd.Fd.		143.8	–	43370
Int Man Cncy Bd Fd(z)		130.4	–	43371
Flexible Prop. Bd. Fd.		199.9	–	43372
Flexible Money Bd. Fd.		365.5	–	43373
Special Man. Inc. Fd.		134.0	–	43374

Prosperity Life Assurance Ltd
1 Sessions Hse Sq, Maidstone ME14 1XX 0622 690525

	Bid Price	Offer Price	Yield Gross	City-line
Initial Equity	139.0	146.5	–	42995
Accum Equity	195.0	206.0	–	43005
Accum Managed	198.0	209.9	–	43006
Accum Five Star	150.0	158.5	–	43011
Accum World	108.0	114.0	–	43013
Accum Lifetime	101.8	101.8	–	47139
Pens Acc Equity	204.5	216.0	–	43025
Pens Acc Managed	230.5	243.0	–	43026
Pens Acc Intl	170.5	180.0	–	43027
Pens Acc Deposit	187.0	197.5	–	43029
Pens Acc Five Star	159.0	167.5	–	43031

Providence Capital Life Ass. Co Ltd
2 Bartley Way, Hook, Hants RG27 9XA 0256 768888

	Bid Price	Offer Price	Yield Gross	City-line
UK Equity Acc.	198.3	209.2	–	43411
UK Fixed Int Acc.	164.3	173.4	–	43412
Intl Equities Acc.	151.5	159.9	–	43413

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)

OFFSHORE INSURANCES

MANAGEMENT SERVICES

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IRELAND (SIB RECOGNISED)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

Franc struggles

THE LACK of clear intervention to defend the French franc last week left the currency near the bottom of the European exchange rate mechanism.

This seems hard to square with French ambitions to keep the franc in line with the D-Mark and join the group operating on a 1 per cent band of movement against central rates. The currencies trying to keep tightly aligned to the D-Mark on a 1 per cent basis of movement are the Dutch guilder and Belgian franc. This has resulted in the Netherlands and Belgium following German rates higher, while the Bank of France has cut its official market intervention rate.

Rising pressure on the franc has not enabled France to keep market rates down however. Before the French rate cut at the end of October the differential between three-month Eurofrancs and D-Marks was about 1¾ points in favour of the franc. This has slipped to about ¾ point, but only because German rates have climbed.

Three-month francs are little changed from late October, at around 10 per cent, despite falling to 9⅞ per cent on the intervention rate cut. German rates have risen from 8¾ to 9¼ per cent. Italian rates have also been forced up to defend the lira, and the market is now looking for firm action from the Bank of France.

It may not have intervened on the foreign exchanges because the French authorities do not agree that the franc is weak. It could be claimed in Paris with some justification that this is more a problem of a strong D-Mark, but the fact remains that the Dutch and Belgians are attempting to stay in the exclusive D-Mark linked club by increasing interest rates. If France does not make a similar move, the franc will remain in the second division.

UK clearing bank base lending rate 14 per cent from October 8, 1990

£ IN NEW YORK

Dec.7	Close	Previous Close
£ Spot	1.9525-1.9535	1.9380-1.9390
1 month	0.95-0.94pm	0.94-0.92pm
3 months	2.60-2.58pm	2.57-2.54pm
12 months	7.90-7.85pm	7.89-7.79pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

CURRENCY MOVEMENTS

Dec. 7	Bank of England Index	Morgan** Guaranty Changes %
Sterling	93.5	-18.8
U.S Dollar	60.5	-18.1
Canadian Dollar	102.4	-0.12
Austrian Schilling	110.8	+12.6
Belgian Franc	112.1	-1.7
Danish Krone	111.4	+5.9
D-Mark	121.0	+26.6
Swiss Franc	115.2	+23.3
Dutch Guilder	116.1	+17.3
French Franc	105.5	-11.4
Lira	100.3	-19.1
Yen	132.6	[illegible]

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100). **Rates are for Dec. 6.

OTHER CURRENCIES

Dec. 7	£	$
Argentina	9665.15 - 9677.10	4960.00 - 4970.00
Australia	2.5095 - 2.5115	1.2915 - 1.2925
Brazil	[illegible]	148.50 - 149.00
Finland	6.9585 - 6.9620	3.5680 - 3.5710
Greece	[illegible] - 300.95	152.35 - 154.90
Hong Kong	15.2110 - 15.2245	7.8020 - 7.8045
Iran	124.80*	63.50*
Korea(Sth)	[illegible]	711.50 - 717.10

CURRENCY RATES

CHICAGO

POUND SPOT - FORWARD AGAINST THE POUND

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

EXCHANGE CROSS RATES

EURO-CURRENCY INTEREST RATES

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

LONDON RECENT ISSUES

EQUITIES

FIXED INTEREST STOCKS

RIGHTS OFFERS

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

FINANCIAL TIMES STOCK INDICES

	Dec 7	Dec 6	Dec 5	Dec 4	Dec 3	Nov 30	1990 High	1990 Low	Since Compilation High	Since Compilation Low
Government Secs.	83.29	83.04	82.68	82.58	82.56	82.58	84.20	74.13	127.4	49.18
Fixed Interest	90.64	90.53	90.37	90.13	90.13	90.23	92.91	83.80	105.4	50.53
Ordinary	1723.8	1717.9	1689.6	1681.6	1685.3	1682.8	1988.3	1510.4	2006.8	49.4
Gold Mines	150.4	151.0	154.3	152.3	157.8	160.2	378.5	150.4	734.7	43.5
FT-Act All Share	1050.67	1047.33	1035.59	1032.81	1038.50	1032.11	1228.83	962.09	1238.57	61.92
FT-SE 100	2183.4	2177.5	2152.8	2146.3	2162.7	2149.4	2463.7	1990.2	2463.7	986.9
FT-SE Eurotrack 100	1002.10	1003.35	976.46	967.76	973.65	958.80	1003.35	948.31	1000.00	948.31

LONDON SHARE SERVICE

BRITISH FUNDS

BRITISH FUNDS—Contd

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INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

FOREIGN BONDS & RAILS

AMERICANS

AMERICANS—Contd

CANADIANS

Continued on next page

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BANKS, HP & LEASING

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
2,427.9	ABN Amro FI5	£9¼	0.7	8.8	4.9	Aug May	1567
1,387.3	ANZ SA1	143	5.9	10.6	12.6	Jan Jul	1698
3,026.1	Abbey National 10p	231	2.7	3.3	6.8	Apr Oct	5411
968.7	Allied Irish Ord	149xd	1.4	6.0	19.11	Dec July	1354
34.2	Anglo Irish	57	.....	7.3	30.4	Jan July	1355
115.7	Ansbacher (H.) 1p	62	1.6	5.4	12.3	April	1624
833.6	Bancaire Cie Fr100	£48½	3.6	2.7	9.5	May Mar	2202
3,457.1	Banco Bilbao Viz	£14¼	3.6	5.6	9.12	Dec June	–
2,686.2	Banco de Santander	£25¼	....	4.0	31.10	Apr Oct	–
505.7	Bank Ireland IrÉ1	151xd	3.4	8.7	19.11	July Dec	1360
134.4	Bank Leumi	£19½		–	–	–	1740
25.0	Bank Leumi (U.K.)	356	.....	5.7	6.8	Mar Sep	1740
880.6	Bank Scotland	114	1.8	5.2	8.10	Dec Jul	1742
100.3	Do. 9¼pc Irrd Pf	100¼	2.0	12.3	22.10	May Nov	1462
13.4	Bank of Wales	42	....	8.9	8.10	Nov Jun	1743
6,177.6	Barclays £1	390	3.4	6.7	20.8	Oct May	1754
5.36	Benchmark 20p	16	–9.1	10.6	9.4	May Oct	1802
35.2	Brown Shipley £1	221	–1.3	§	11.6	Jan Aug	1983
90.8	Cater Allen £1	383xd	0.3	8.5	19.11	Jan. Aug	2081
9.18	Chancery	44	12.8	§	25.6	Jan July	2102
389.5	Commerzbk DM10	£17¼	7.6	3.6	27.5	May	1046
21,131.7	Dai Ichi KBk Y50	754	5.8	0.5	4.7	June	3221
7,832.1	Deutsche Bk DM50	£220¼	5.4	2.1	17.5	May	2345
175.1	Espirito Santo	£16½	0.8	2.3	–	June	5187
304.8	First Nat. Fin. 10p	189	....	9.2	9.7	Mar Aug	2571
47.0	FNFC 6.3pc Cv Pf	97	1.0	8.7	25.6	July	2570
19,139.8	Fuji Bank Y50	842	–0.2	0.4	4.7	Dec June	1084
121.4	Gerrard & National	312	....	8.1	22.10	June Dec.	2686
51.2	Guinness Mahon 10p	79	–1.3	2.5	14.5	July Feb	5074
410.4	Hambros 20p	242	3.0	6.4	25.6	Jan Sep	2812
148.5	Do 7.5pc Cv Pf	99	2.1	10.1	10.9	Apr Oct	4388
2,387.7	HK & Shang. HK$2.50	32½	8.3	7.8	14.9	October	–
19.8	Joseph (Leo) £1	378	1.3	5.6	6.8	Jan Sept	3060
19.9	King & Shaxson 20p	126xd	0.8	10.8	19.11	Dec June	3088
367.9	Kleinwort Benson Grp	290	2.8	7.4	20.8	May Oct	3102
5,460.4	Kyowa Bank Y50	480	4.7	0.7	29.6	Mar Jun Sept	3049
3,744.8	Lloyds £1	342	6.7	5.9	6.8	Oct May	3171
28.6	Lon. Scot. Bank 10p	48	.....	6.7	25.6	Mar Aug	4651
1,607.2	Midland £1	205	4.6	11.7	6.8	May Oct	3380
29,176.6	Mitsubishi Bank Y50	£10⅞	.....	0.3	4.7	June Dec.	5290
8,719.1	Mitsubishi Tst & Bk Y50	£6⅞	9.8	0.7	–	June Dec	4775
22,058.9	Mitsui Taiyo Kobe Y50	£6⅛	5.9	0.5	–	Sept Mar	–
6,303.8	Mitsui Tst & Bk Y50	518xd	2.8	0.7	7.12	Sept Mar June	5388
2,438.6	Nat Aust. Bk. A$1	233	2.2	9.5	21.12	July Jan	3456
4,632.2	NatWest £1	287	5.9	7.8	8.10	Oct May	3463
55.0	Ottoman Bank	£110	–4.3	10.0	16.5	May	–
11.0	Rea Bros. Group	28	.....	2.4	10.9	May Oct	3785
1,277.6	Royal Bk. Scotland	169	7.0	6.9	14.5	Mar July	3874
1,933.6	Saitama Bank Y50	387	4.0	0.7	29.6	Sp De Mr Jn	5286
29,308.2	Sanwa Bank Y50	732	6.7	0.5	11.12	June Dec.	5108
350.6	Schroders £1	698	1.5	2.4	8.10	Nov May	3939
[illegible]	Do. £1 N/V	458	–2.1	3.6	8.10	May Nov	3941
1,358.9	Sec. Pacific $10	£12¾	13.8	9.9	25.10	Fb My Ag Nv	3985
670.2	Standard Chartd. £1	287	5.5	16.3	20.8	May Oct	4094
21,578.4	Sumitomo Bank Y50	£7¼	8.3	0.4	29.6	June	3079
1,828.7	Sumitomo Tr & Bk Y50	£6½	9.1	0.5	29.6	June Dec	4928
2,104.2	TSB	140	....	5.5	6.8	Oct Mar	4320
17.2	TSB Bank Ch'nel Is'l	117	.....	5.7	11.6	Feb Aug	4319
19,021.6	Tokai Bank Y50	£5⅛	3.8	0.8	29.6	June	5364
5,531.5	Toyo Tst & Bk Y50	688	7.6	0.4	29.6	Sept Mar Jun	1393
[illegible]	[illegible]	579	–0.3	7.6	23.7	Mar Sept	4353
660.2	Warburg (S.G.)	336xd	2.4	6.0	19.11	July Dec	4425
49.4	Do 6pc Cnv Prf	114	3.6	6.9	10.9	Mar Sept	4436
1,376.5	Westpac SA1	136	.....	13.7	28.12	Jan July	4473
25.9	Wintrust 20p	308	0.7	3.8	6.8	Sept Mar	4524
6,352.7	Yasuda Tst & Bk Y50	688xd	1.3	0.8	7.12	Sept Mar Jun	5347

Hire Purchase, Leasing, etc.

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
20.0	CLF [illegible] 20p	30	....	§	10.9	July	1162
28.1	Cambridge Grp Ir5p	48	–4.0	0.7	14.5	Dec June	5358
10.6	Capital Leasing Ir10p	38	4.1	2.8	27.12	Jul Jan	1641
37.8	Cattle's (Hdgs) 10p	54½	0.9	9.3	10.9	May Oct	2082
207.9	Prov. Financial	488	0.2	6.7	10.9	Nov Apr	3731
19.6	Reflex Invs. Ir5p	139	–4.8	1.7	25.6	July Dec	4940
27.9	Secure Trust Grp. 1p	197	....	5.8	8.10	Jan Nov	1472
220.4	Woodchester IR20p	168	–1.2	1.9	24.9	May Oct	1487

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ELECTRICALS – Contd

[illegible]

ENGINEERING

[illegible]

ENGINEERING – Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INDUSTRIALS (Miscel.) – Contd.

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

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[illegible]

Commercial Vehicles

[illegible]

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MOTORS, AIRCRAFT TRADES — Contd

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

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SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

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TRANSPORT

INVESTMENT TRUST

INVESTMENT TRUST — Contd

INVESTMENT TRUST — Contd

Net asset values supplied by County NatWest Wood Mackenzie

FINANCE, LAND, ETC

WATER

OIL AND GAS

OIL AND GAS — Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES — Contd

Tins

Miscellaneous

THIRD MARKET

0.95	Kemp (P.E.) 5p	6			7.89	–	3077
54.9	M L. Labs. 1p	220	0.9	–	–	–	4578
0.62	Moray Firth 1p	3½		–	–	–	3412
1.03	Navan Resources	19		–	–	–	1186
1.46	Ovoca Gold IR 2p	21	–16.0	–	–	–	1470
[illegible]	[illegible]	16	–20.0	–	–	–	2712
13.2	Poddington 5p	770		–	–	–	3117
3.90	Ramsden's (Harry)	65	–7.1	9.2	9.7	January	2011

For Remainder see INDUSTRIALS

0.84	Sampersons	6		–	–	–	1645
2.60	Sleepy Kids 5p	15	–13.3	–	–	–	5068
0.33	Systems Connections	1¼		–	–	–	5341
5.94	Tomorrows Leisure 20p	68	6.0	2.5	24.9	October	4248
1.29	UPL Group 10p	32		–	22.5	Dec. July	4362
2.15	Video Magic Lab. 1p	13		–	26.1	–	5071
2.16	Vista Ents 5p	2¼	–10.0	–	–	–	3994
6.71	Wilton Group 1p	1½		–	–	–	3428

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distributions and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ● "Tap Stock"
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ♦♦ Not officially listed.
- ● Price at time of suspension
- ¶ Non comparable
- † Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ‡ Cover does not allow for shares which may also rank for dividend at a future date.
- § No par value

B.Fr. Belgian Francs. Fr. French Francs. ¶¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. c Cents. e Redemption yield. f Flat yield. k Kenya. C Canadian. E Minimum tender price.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

IRISH

TRADITIONAL OPTIONS

3-month call rates

Industrials

GKN	27
Hanson	16
Hawker Sidd.	38
ICI	70
Ladbroke	22
Legal & Gen.	32
Lex Service	17
Lloyds Bank	30
Lucas Inds.	11
Marks & Spencer	19
Midland Bk	16
Nat West Bk	21
P & O Dfd.	44
Racal Elect.	16

Property

Oils

Atlea Petlm	3½
Brit. Petroleum	27
Burmah Castrol	46
Conroy Petlm	15
Gaelic Res.	1½
Premier	7
Shell	37
Tuskar Res.	2
Ultramar	29

Mines

Lonrho	19
RTZ	[illegible]

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1,050 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service:

Additions: Banco de Santander (Section: Banks)
Brabant Resources (Oil & Gas)
First Pacific Co. (Overseas Traders)
Standard Platforms Hldgs. (Electricals)

Deletions: Bio-rad Labs. (Americans)
Hercules Inc. (Chemicals)
Image Storage/Retrieval Systems (Americans)
Mount Charlotte (Hotels)
Orchid Technology (Electricals)

4pm prices December 7

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
37⅛	9⅛	AAR	.48	3.7	8	892	13⅛	12½	13⅛	– ⅛
9⅜	7⅞	ACM n	1.01	11.		322	8⅞	8¾	8⅞	+ ⅛
11⅛	9⅛	ACMIn	1.26	12.		934	10⅛	9⅞	10⅛	+ ¼
9¼	6½	ACM M n	1.01	14		785	7⅛	7⅛	7⅛	
12¼	10	ACMMM	1.50	13.		90	11⅜	11⅜	11⅜	+ ⅛
11½	8⅜	ACM Sc	1.26	13.		820	9⅝	9½	9⅝	
9⅞	7⅞	ACMSp	1.01	12.		634	8⅛	8¼	8¼	
24⅝	16⅛	AL Lab	.16	.7	19	436	23⅛	23⅝	23⅞	+ ⅛
4⅝	1	AM Intl				218	1⅞	1⅝	1⅝	– ⅛
19¼	4⅞	AM In pf	2	26.		5	7⅞	7⅝	7⅝	
70¼	39¼	AMR			16	4601	52¼	51⅝	52⅛	– ¼
25½	25	ANR pf	2.67	11		8	25⅞	25⅝	25⅝	– ⅛
4	1⅛	ARX				4	1⅛	1⅛	1⅛	
72¼	38¼	ASA	3	7.4		277	41⅛	40⅞	40⅞	– ⅞
3½	2⅛	ATTC wt				510	2⅛	2⅛	2⅛	+ ⅛
45⅝	31⅛	AbtLab	s.84	1.9	21	4880	45⅛	44⅞	45	
11⅝	4⅝	AcmeC	.40	7.4	12	21	5⅜	5⅛	5⅜	+ ⅛
9⅝	5	AcmeE	.32	5.8	9	10	5½	5½	5½	
32¼	18⅞	Acuson	s		23	792	28⅛	28½	28⅝	+ ⅛
16⅞	14⅛	AdaEx	1.73e	12.		62	14⅞	14⅛	14⅛	
15⅜	10	Adobe				54	10¼	10⅛	10⅛	
20¼	16	Adob pf	1.84	11.		270	17½	17½	17½	
21⅝	18⅛	Adob pf	2.40	12.		1	19⅛	19⅛	19⅛	
11⅛	3⅝	AMD				6060	4⅝	4½	4⅝	+ ⅛
32⅞	13	AMD pf	3	20.		35	15⅛	15	15⅛	
9⅛	1⅝	Advest	.16	6.4		65	2⅝	2⅜	2½	– ⅛
62	29	AetnLf	2.76	7.1	9	2690	39⅞	38⅞	39⅝	– ⅝
12⅞	6⅛	AilPb	.24	3.0		958	8⅛	8	8⅛	
22½	10⅝	Ahmans	.88	6.3	6	3662	14⅛	13⅞	13⅞	– ⅛
9⅝	1⅞	Aileen			7	38	2⅞	2⅞	2⅞	– ⅛
61	42⅞	AirPrd	1.44	2.6	13	1072	54½	54	54½	+ ⅝

Continued on Page 31

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Continued from previous Page

NYSE COMPOSITE PRICES

22½	18⅝	PugetP	1.76	8.2	11	612	21½	21⅛	21½	+ ⅛
12	8½	PDPI	1.23	12.		1248	10⅛	9⅞	9⅞	+ ½
12½	8¾	PDIF	1.31	13.		223	10½	10¼	10⅜	+ ¼
7⅛	4⅞	PHICB	.85	16.		565	5½	5⅛	5⅜	+ ¼
9⅞	6⅛	PHYM	.81	9.6		713	8⅝	8⅜	8½	+ ¼
9½	7⅛	PIGIT	.98	11		1722	9	8⅞	8⅞	+ ⅛
12	10¼	PIGM	.89	8.2		254	11	10⅞	10⅞	
9⅞	6½	PMMI	.76	8.6		1415	9½	8⅞	8⅞	− ⅛
8⅛	6	PMIIT	.67	13		1704	6⅞	6¾	6⅞	+ ¼
8⅝	6¼	PMIT	.93	13		2393	7⅛	7	7¼	+ ⅛
8½	6	PPrIT	.93	13.		6541	7¼	6⅞	7	+ ⅛
21⅛	8½	QMS			11	674	14⅞	14½	14⅞	+ ⅛
13-16	5-64	Qantel				282	3-32	⅛	9-64	+ 1-64
62⅛	41⅛	QuakrO	1.56	3.1	18	1329	51½	50⅞	51⅛	+ ¼
16⅛	7⅞	QuakSC	.80	6.6	19	2510	12⅛	10⅞	12⅛	+ 1½
18⅝	9⅛	Quanex	.48	3.5	7	195	13¾	13⅝	13⅝	+ ⅛
30½	19⅞	Quanx pf2.25		9.5		7	24⅛	23⅝	24⅛	+ ⅝
30⅛	8⅛	Quantm	.44t	3.6	11	783	12⅜	12¼	12⅛	− ⅛
14	11⅞	QstVl	1.20a	9.4		352	12⅜	12⅝	12¾	
14⅝	10⅛	QstVC				470	11⅜	11½	11⅝	
39¼	32⅝	Questar	1.96	5.3	14	431	37¼	35⅞	37¼	+ 1⅛
16½	9⅛	QkReily	.28a	2.7	8	107	10½	10⅛	10⅛	− ⅛

– R – R – R –

11¾	10⅛	RAC In	1.26	11		264	11¼	11	11¼	+ ⅛
5⅜	2	RAC	.65e	13.	6	90	5¼	4⅞	5⅛	+ ⅛
22	17¼	RJR pf				1672	21½	21	21¼	− ⅛
7¾	3⅜	RJR Nb wt				916	5¼	5⅛	5⅛	
14¾	8¾	RLI Cp	.44	3.4	6	5	13	12⅞	12⅞	
13	3¾	RMI Ti	.10	2.1		301	5	4⅞	4⅞	
17⅝	8⅝	ROC Fd.22e		2.6		604	8⅞	8⅝	8⅝	+ ⅛
9⅛	5⅛	RPC			18	1	8⅛	8½	8⅛	
8⅛	4½	RPS	.63e	16.	9	480	5⅛	5⅛	5⅛	
67⅛	42⅝	Racal	.60e	1.2	26	2758	50⅝	49⅞	50	
108⅞	77⅛	RalsPur	1.86	1.9	15	607	100⅝	99¼	100	+ ⅛
8⅞	5⅝	RangrO	.06e	.9	18	671	7	6⅞	6⅞	− ⅛
35½	18¼	Raycm	.32	1.5		882	21⅛	21⅛	21¼	− ⅛
22⅝	14⅝	RJamF	.24	1.4	8	182	17½	17⅛	17½	+ ⅛
26½	18¾	Rayonr	3.60	18.	5	61	19⅝	19⅛	19⅝	+ ⅝
2⅜	1⅛	vjRaytc			1	18	1⅛	1⅛	1⅛	− ⅛
71¼	57⅛	Raythn	2.40	3.6	8	1474	67⅝	66½	66½	− 1½
28	21	RdrDg n	.60	2.2	17	547	27⅞	26⅞	27⅞	− ⅛
8	7⅛	RdgBts				806	1⅝	1½	1½	
16¼	11⅛	RET	1.48	11.	9	220	13	12¾	12¾	− ⅛
15½	12⅛	RitRef	1.72	14.	7	1	12½	12½	12½	− ⅛

[illegible]

NASDAQ NATIONAL MARKET

4pm prices December 7

[illegible]

WiserO	.40a	29	1047	16¼	15¾	16¼	+ ⅛
Wolohn	.28b	7	35	13½	13¼	13⅛	− ⅛
WrvExp			854	4⅜	4⅛	4⅜	
WrvEx pf			174	12⅜	12	12⅛	+ ⅛
Worthg	.60	15	224	21¼	21	21⅛	− ⅛
Wyman	.60		474	7	6⅞	7	

– X – Y – Z –

XL Dta		4	240	7	6⅞	6½	
XOMA			1148	18	17	18	− ⅛
Xlibex			918	14⅛	[illegible]	13	− 1⅛
YaoEnS	1.52	13	19	21½	20½	21½	
YelowF	.94	30	1407	25⅝	[illegible]	25½	+ ⅜
YorkRs		13	2123	10⅝	9⅞	10⅛	+ ⅞
Zeos		16	17	13½	12¾	13½	+ ½
ZionBc	1.44	8	60	29⅛	29⅛	29⅛	+ ⅛

AMEX COMPOSITE PRICES

4pm prices December 7

[illegible]

MONDAY INTERVIEW

Thinking man's leader

Dr Jonathan Sacks, Britain's chief rabbi-elect, speaks to **John Lloyd**

The man who will soon be Britain's Chief Rabbi, Jonathan Sacks, says the world stands at the head of a moral and cultural shift so profound that future generations will look back upon these closing years of the millennium with awe and wonder. He is currently conveying this, carefully and with an erudition so pronounced it is at times self-conscious, in the BBC's Reith Lectures.

Rarely can the lectures have been used for a proposition as vast as his. The last divine who was given the space, Dr Edward Norman, in 1978, then dean of Peterhouse, Cambridge, used the opportunity to insert a delicate stiletto into the pretensions of those of his fellows whom he found too politicised. It was contentious, but not ambitious: Rabbi Sacks is hugely ambitious, and contentious only as an afterthought.

His appearance and some of his responses do not prepare you for the challenge he is now sending out. He is a pleasant man who lives in a nice semi-detached house in Golders Green in north-west London and drives a Ford Sierra. The only apparently remarkable thing about him is his age – 42 – but even that only so to a non-Jew. British Jewry has had five chief rabbis since 1845, giving them an average of 29 years in office. Even with longevity, it meant they were appointed relatively young.

Rabbi Sacks is anxious not to assume the mantle of Lord Jakobovits, whose place he takes as chief rabbi on the latter's retirement next year, as Mrs Margaret Thatcher's favourite religious leader. Yet he echoes his predecessor in saying that "Judaism is a religion about individuals". He says he is "not ready to speak" about Israel – though he adds that he has sympathy with those who "distrust the terms under which peace may be offered" by the PLO.

He is concerned by the continuing decline of Anglo-Judaism, mostly through intermarriage. And he must attempt to draw together the sectarian divisions within the Jewish community – professing mild optimism in this task, saying that "we are now at the limit of internal disunity." In many things, it seems, a calm, analytical intelligence is the style being proffered.

It is thus harder to believe his central message – that we are approaching a new epoch – than if he had been speaking with the fevered tongue of an American evangelist or the know-it-all lilt of a swami.

Rabbi Sacks's care is Jewry, and though his point applies, more or less, to other religions as well, he would insist that no other religious group was quite like the Jews – none was fated as they were to *be* Jews, whether believing or not. Thus this new order affected them uniquely.

In the 19th and much of the 20th century, he says, "most Jews were in flight from their Jewishness." A period of attempted assimilation then set in, to which some of the best minds were attracted. Yet they soon found a terrible dilemma – one of the "deep wounds" of the enlightenment. The Jews all became *Marranos* (the name given by the Spanish to those Jews who, between the 14th and 16th centuries converted to Christianity under pain of death or torture: it means "swine"). They had lost community and could not find either a secular or Christian home. They were lost souls.

Here, Rabbi Sacks makes a remarkable comment: he says that Spinoza, Durkheim, Marx, Freud, Kafka and Wittgenstein (and others), all enlightenment men cut adrift from community, were driven to create their intellectual or fictional systems by the pressures of their own alienation. In other words, these vast empires of thought stood on foundations of tremulous uncertainty. When I put this back to him, he affirmed his view.

"Yes. It is a tragic chapter in Jewish history. I don't agree with Spinoza that man is part of nature. I don't agree with Freud that religion is a nervous disorder. I know these people produced formidable achievements. I am enriched by them. But they are wrong."

The promise of secularism, for Jews, turned out to be a delusion. Religious discrimination was replaced with secular anti-semitism – ultimately a much more murderous thing, when allied to modern technology and the distorted cult of the *Ubermensch*, or Superman. "The possibility of a neutral society died, finally, at Auschwitz," observes Rabbi Sacks, without a display of emotion.

It is almost a diversion in the sweep of the Rabbi's thoughts to note that he does not view anti-semitism, at least in Britain, as a matter of huge concern. It does not figure as more than an aside in the Reith lectures. Why not, at a time when commentators point to its gathering force in eastern Europe and elsewhere? Rabbi Sacks's answer is twofold. He allows that if President Mikhail Gorbachev falls, and chaos results, then the signs of increasing anti-semitism will likely turn into something much worse.

"This is again an example of what Jews always fear and what they always shrink from – the collapse of central authority." But in Britain, he says, there "is a danger of being obsessed by it. We must make distinctions between what happens in a stable democratic order and what happens when these conditions are not present." Further, he is very much against Jews seeking to define themselves by others' hatred, a definition which

'Judaism is a religion about individuals'

PERSONAL FILE

- 1948 Born in London.
- 1966-71 Graduated from Cambridge University (moral sciences); postgraduate studies at New College, Oxford.
- 1973-76 Rabbinical studies at Jews' College, London.
- 1978-82 Rabbi of Golders Green synagogue.
- 1983-90 Rabbi of Marble Arch synagogue.
- 1984-90 Principal, Jews' College, London.
- 1990 Chief rabbi-elect.

Jean-Paul Sartre, writing immediately after the war, elevated as their *only* defining characteristic. "It is an inversion. We are not chosen for the love of God but for the hatred of the world."

This in turn links back to his main theme. After the Holocaust, he says, there was a "kind of silence" for some 20 years. But in the past 25 years, Jews began thinking again. They realised that there is no escape from Jewishness, and that "the limits of secularisation had been reached". Of course, those who define themselves by the "hatred of the world" still exist. But increasingly this negative, even self-destructive, image is coming to seem inadequate.

Rabbi Sacks talks essentially about the Jewish experience but comprehends all religious experience. The age must be lived in as it is; there is no way back to a traditional never-never land, or in the Jewish case, to the ghetto. Nor, he stresses, is there a way out through extremism. Religious *fundamentalists* are at war with the various forms of the enlightenment which have threatened the basis of their moral orders: for Jews, assimilation; for Moslems, westernisation.

To take on these foes, fundamentalists must not enclose themselves in religious walls but must take up a position from which they assault the basis of liberal, pluralistic societies, seeking to ensure that society makes its laws and customs in some ways subservient to the fundamentalist moral order.

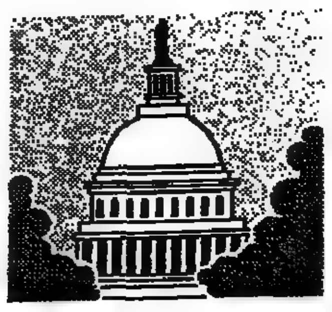
To the enthusiastic secularists of the 19th and 20th centuries, this was an inconceivable threat. Religions were implicitly assumed to be losing in the struggle with secular, liberal values – or at least assumed to know their place. But Rabbi Sacks's message now is that this is not enough. Secularism no longer commands the force to withstand the fundamentalist challenge: the individual, and the state as a holder of the ring, arbitrating between conflicting interests, no longer provides us with meaning. Only religion can.

But how can it do so without descending to the level of a new tyranny? Here, the analytical sweep becomes less sure of itself. The diagnosis, in giving way to a prescription, loses its edge. "There is a slender possibility of a stronger religious faith, of a faith which can recreate the traditional strength of belief without loss of the tolerance which the enlightenment brought. That is what I speak for. It is a slender possibility, but you have to consider the alternatives. The alternatives, if we cannot rediscover this faith, is that we pass into an age in which we have no beliefs which can withstand the fundamentalists."

Here is a vision at once *exhilarating and bleak*. It is wholly at odds with the religious project which has been proposed by the Anglican and other British churches in the assumption that the churches can continue as a peripheral provider of a kind of higher social service. What he is saying is: either religion now makes a claim on the soul of mankind, or it is nothing – and if it does not or cannot, then we are on a moral decline.

He is saying this to us all, Jew or gentile: do you know why you are living? How many can answer him?

Badly belayed for the shock of recession



MICHAEL PROWSE on America

One of America's longest post-war expansions is over: that is the blunt message signalled by employment figures published on Friday, which were far worse than expected. The US must now brace itself for the first recession in nearly a decade – a recession, moreover, for which recent fiscal, banking and social policies have ill prepared the nation.

The employment numbers came as a genuine shock. There were numerous earlier signs of weakness, including some of the biggest drops in consumer confidence in four decades. But they were not interpreted as unequivocal portents of recession. The White House was able to talk of an economic "lull" without provoking ridicule.

The optimists must now reconsider. The 267,000 drop in non-farm employment in November was more than triple market expectations. It was accompanied by a dramatic upward revision of October's job losses – from 68,000 to 178,000. The two-month decline was the worst since the 1981-82 recession and affected nearly every sector and region of the country. It pushed the unemployment rate to 5.9 per cent, a three-year high.

The figures provide no support for the fashionable view that this would be a "white collar" recession. Three quarters of the November job losses were in manufacturing, which has shed nearly 800,000 jobs in less than two years. Most of the rest were in construction. The service sector as a whole lost only 12,000 jobs mainly because America's health-care juggernaut is still expanding.

Last week's purchasing managers' survey did suggest that many manufacturers are still benefitting from the dollar's weakness. But exports remain too small a fraction of manufacturers' output to offset domestic contraction. And further buoyancy can scarcely be relied upon given that many of the US's important trading partners, such as Canada and the UK, are already in recession.

The US has weathered dozens of downturns since the Declaration of Independence. Prior to the 1930s, the vicissitudes of the business cycle were accepted as a fact of life – a reality as unalterable as the agricultural cycle of feast and famine. Puritans even welcomed recessions as a healing process: an opportunity to make amends for past excesses. There is still a hint of that attitude today: many Americans look back aghast at the credit binge of the 1980s. But traces of remorse will not prevent the Bush administration coming under intense pressure to do something to alleviate economic distress.

Amazingly, some diehard conservatives are still talking about tax cuts. Right-wingers apparently still believe that a cut in capital gains taxes could rejuvenate the economy. There is something surreal in these suggestions: don't supply siders understand that when asset values are collapsing, there are no capital gains, even for the rich? Don't they realise that their policies are responsible for the present fiscal crisis?

Last week, the Congressional Budget Office – the independent advisory body for legislators – estimated that the federal budget deficit would soar to $320bn next year and $337bn in 1992, despite the cutbacks agreed in the October Budget concord. Of course, if you include the huge emerging surplus on social security and strip out the still-escalating cost of the Savings and Loan bailout (which has no expansionary effect), next year's deficit falls to only $162bn, unchanged from 1990. But the bad news is that the CBO's estimates are based on unrealistic growth assumptions – 0.6 per cent next year and 3 per cent thereafter.

A serious recession would probably push the "economic" deficit above $200bn and the headline figure towards $400bn, hardly a sensible base from which to cut taxes. Indeed, given the fraying of the social welfare net during the Reagan years, federal and state governments will either have to raise extra revenue to finance improved benefits and services or accept responsibility for urban deprivation on a truly horrifying scale.

To take just one example, the scope of unemployment insurance has been greatly reduced by the imposition of tighter eligibility conditions. During the deep 1973-75 recession, three quarters of the jobless qualified for government benefits. But in any future recession only about a third of the unemployed may qualify for insurance payments. This matters in a country which still provides no welfare relief for able-bodied childless adults other than food stamps and occasional job training. If the safety net is not repaired, poverty could become a defining issue in the 1992 election campaign.

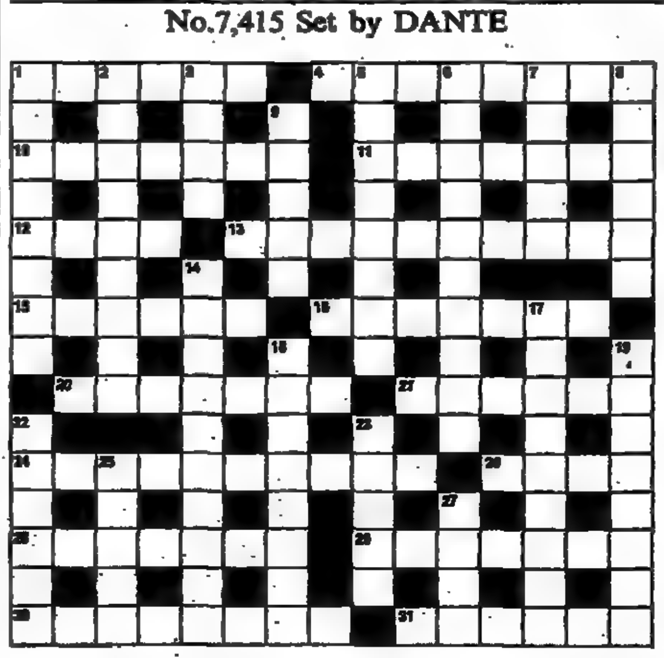
Given the fiscal disarray, the burden of fighting the recession must fall mainly to Mr Alan Greenspan, the chairman of the Federal Reserve. He has sensibly presided over a gradual easing of monetary policy since the summer. Early last week, the Fed cut banks' reserve requirements in an effort to bolster bank profitability and encourage more lending. On Friday, it signalled another small cut in the federal funds rate, the third in a month. This sparked the first cuts in prime lending rates since January, although the big money centre banks have yet to declare their intentions.

This downward trend in short-term rates is encouraging and must continue. The fact that long bond yields have also fallen sharply implies that inflation is no longer a serious *concern*. The key question is whether Mr Greenspan can avert the kind of contraction of credit and monetary growth that precedes deep recessions. These – rather than retail sales or inventories – are the numbers to watch if you want to gauge the likely severity of this downturn. In the meantime, if you see a banker, tell him to keep lending.

JOTTER PAD

CROSSWORD

No.7,415 Set by DANTE



ACROSS

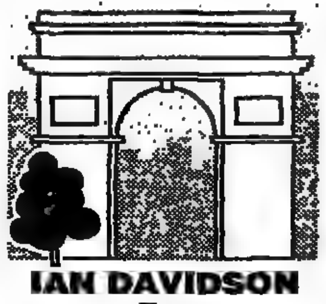
1 Religion is embraced by them (6)
4 Breaks down, strangely enough (6,2)
10 Contempt for a futile action (7)
11 Hot spot turns out to set back father (7)
12 Turns to bridge and dozes off (4)
13 Swindles, theft and intrigue (10)
15 April's turned out to be spring-like (6)
16 Not involved in fight, so not charged (7)
20 Badly angered and remaining furious (7)
21 Sort of market for land (6)
24 Comfortable situation for professors (4,6)
26 Nail turned blue (4)
28 He doesn't believe in anything fancy (7)
29 From this raw spirits are made (7)
30 Vessel often crossing the bar (8)
31 It's sung by numbers (6)

DOWN

1 Massenet composition produces no excitement (8)
2 Adverse criticism? Not as a rule (9)
3 Notice a large number appear (4)
5 Sees dirt, becomes revolted (8)
6 Belief in proof of guilt (10)
7 Ayr is strangely not in Scotland (5)
8 Father holds agreement for fruit (6)
9 Poet possibly born around the end of the century (5)
14 Mix Charmian's love drink (10)
17 A cross on top of a church in Devon (9)
18 Peter and Rae involved in a lively exchange (8)
19 They should be able to identify any salts in a mixture (8)
22 A new bride's bits and pieces (6)
23 Attracted to being taken out (5)
25 Keep silent about mother's bankruptcy (5)
27 Pound note remains (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday December 22.

Gaullist demonology resurrected



IAN DAVIDSON on Europe

Last week, France's Gaullist party stepped into the breach left by the fall of Mrs Thatcher, picked up the nationalist banner that she had made her standard, and adopted a new European policy declaration fiercely denouncing the federalist schemes of President François Mitterrand, Mr Jacques Delors and other Community enthusiasts.

It seemed an eerie re-make of the impassioned dramas of the 1960s, when General de Gaulle himself was waging war against the supra-national ambitions of the Brussels institutions, and trying instead to turn the Community into an old-fashioned alliance of sovereign nation states.

What makes the Gaullists' stand especially curious is its revivalist aura. For the past five years, they have hidden their traditional hostility to the Community behind their reluctant conversion to the economic logic of the single European market. In the 1988 presidential election campaign, all the respectable candidates, including Jacques Chirac for the Gaullists, mouthed similar slogans in favour of Europe, avoiding any real debate on the details of this Europe. Their latest re-statement of atavistic hostility to the Community is thus an odd throwback to an earlier era.

They claim that their position is justified by the new realities. General de Gaulle's prophetic image of a Europe from the Atlantic to the Urals has now come true, and it vindicates his ideal of an association of independent nation-states. There is no military threat from the east to require close integration in the west; there is no cold war to justify the exclusion of the countries which make up eastern Europe.

The problem with the Gaullist position, like that of the Thatcherites, is that it does not meet the tests of history or logic. The General slowed down the Community's development, of course, but he failed to change either its nature or its direction. His spiritual successors will fail, too. The European Community's development is still accelerating, and nobody can determine in advance how far it will go.

The first Gaullist-Thatcherite fallacy is to imagine that it is possible to pre-empt the course of history. The original Community was founded on the proposition that Europe should be able to exercise central control over two strategic resources: coal and steel. Forty years later, that idea seems ridiculous in all its parts.

Today we have a quite different driving idea, which is that the Community should provide a free and stable economic environment for the operations of a liberal market. This idea, too, may succumb to the flow of history; but for the moment, the result of it is that the Community is continuing to move in a federalist direction.

This is not to say that it will necessarily end up as a fully-fledged federation, with all the powers and trimmings; let alone that it *ought* to become one. At this stage, who can possibly tell? But it is obvious *that a large majority of the* member states are now firmly set on a process which they intend shall lead to Economic and Monetary Union, and if that is not a vast step in the direction of a federation, it is hard to think what would be.

The second Gaullist-Thatcherite fallacy is a misrepresentation of the meaning of the word "federation", perhaps because it is misunderstood. To listen to Mrs Thatcher's diatribes, you would think that there was a conspiracy among a coven of continental gremlins, whose purpose was to make off with Britain's vital bodily fluids, and use them to create a vast European superstate.

Well, this is not the place for yet another lengthy disquisition on the meaning of the word "subsidiarity", and there is more than one way of constructing a federation. But if a European federation *should* be created by the members of the EC, at least two features of the process can be taken for granted. First, the federation will only have those powers which the member states agree to hand over; second, very few of the member states will vote to disappear in a puff of smoke.

The reason for the Gaullist-Thatcherite panic in the face of the evolving Community is that they come from the two most super-centralised unitary states in Europe, and they understand nothing else. Mrs Thatcher's principal contribution to British constitutional history is to have done her best to destroy local government. The Gaullists have still not come to terms with the milk-and-water decentralisation introduced by President Mitterrand in the early 1980s.

In the Gaullist-Thatcherite *cosmology, there must be no* diminution of the nation-state, so they equate any dilution of it to total destruction, or its absorption into a different mega-state. In this case, it would be a German mega-state.

The third fallacy involves Germany's role. Few people in France have descended in public to the level of saloon-bar abuse so shockingly conveyed by the July 14 Spectator interview with Mr Nicholas Ridley, the former British trade and industry secretary. But undoubtedly there are many who are haunted by a spectre of German domination of the new Europe. Some fear that Germany will dominate the Community; others, that Germany will abandon it and float off on some mystical central European quest of its own.

What they find hard to understand is that Germany needs to be part of a developing political *Community* for its own security in the face of uncertainty and instability to the east; and that not even a unified Germany can "dominate" its peers, providing the Community acquires sufficiently integrated political structures.

Like it or not, the summit in Rome at the end of this week will launch the Community on a new phase which will inevitably take it closer to a federation. One can sympathise with the sufferings of those who do not like it; but only the others will be in a condition to make the best of it.

BASE LENDING RATES

	%		%		%
ABN Bank	14	Coutts & Co	14	NatWestminster	14
Adam & Company	14	Cyprus Popular Bk	14	Northern Bank Ltd	14
Allied Trust Bank	14	Dunbar Bank PLC	14	Nykredit Mortgage Bank	14½
AIB Bank	14	Duncan Lawrie	14	Provincial Bank PLC	15
● Henry Ansbacher	14	Equatorial Bank plc	14	Roxburghe Bank Ltd.	14½
Associates Cap Corp	15½	Exeter Trust Ltd	14½	Royal Bk of Scotland	14
● B & C Merchant Bank	14	Financial & Gen. Bank	14	Royal Trust Bank	14
Bank of Baroda	14	First National Bank Plc.	16	● Smith & Williamson Secs.	14
Banco Bilbao Vizcaya	14	● Robert Fleming & Co.	14	Standard Chartered	14
Bank Credit & Comm	14	Robert Fraser & Ptnrs.	14½	TSB	14
Bank of Cyprus	14	Girobank	14	Unibank plc	14
Bank of Ireland	14	● Guinness Mahon	14	● United Bk of Kuwait	14
Bank of India	14	HFC Bank plc	14	United Mizrahi Bank	14
Bank of Scotland	14	● Hambros Bank	14	Unity Trust Bank Plc	14
Banque Belge Ltd	14	Hampshire Trust Plc	14½	Western Trust	14
Barclays Bank	14	Heritable & Gen Inv Bnk.	14	Westpac Bank Corp.	14
Benchmark Bank	14	● Hill Samuel	14	Whiteaway Laidlaw	14
Brit Bk of Mid East	14	C. Hoare & Co.	14	Yorkshire Bank	14
● Brown Shipley	14	Hongkong & Shangh	14		
CL Bank Nederland	14	● Leopold Joseph & Sons	14		
● Charterhouse Bank	14	Lloyds Bank	14		
Citibank NA	14	Meghraj Bank Ltd	14		
City Merchants Bank	14	McDonnell Douglas Bnk	14		
Clydesdale Bank	14	Midland Bank	14		
Comm. Bk of London Plc	14	Mount Banking	14		
Co-operative Bank	*14	Nat Bk. of Kuwait	15		

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AUSTRALIA

Who runs the country? The Labor Party's dominating force, Page 2

Trouble down on the farm as recession hits wheat and wool exports, Page 6

Monday December 10 1990

Two years after the optimism generated by the bicentenary celebrations, the vision of a glorious economic future for the Great South Land appears to have faded. **Kevin Brown** explains the reform programme which is needed to restore the lucky country's fortune

With a little bit of luck . . .

LESS than two years ago, Australia was on the crest of a wave as it celebrated, with some style and not a little pomp, the 200th anniversary of European settlement. The economy was growing, Australian businessmen and sportsmen were carrying all before them, and patriotic hearts swelled as the celebratory fireworks exploded over Sydney Harbour. Not for the first time, anything seemed possible for the Great South Land.

Where did all that optimism go? Today, the country is in recession, many economists are forecasting that unemployment could soon reach 10 per cent, and farmers are shooting 20m sheep because of a collapse in wool prices. To its credit, Prime Minister Mr Bob Hawke's government has begun to attack the country's underlying problems with a programme of long-term reform. It is not before time. Hardly a week passes without a leading company announcing heavy losses, and many of the entrepreneurs who once roamed the globe looking for investment opportunities are facing official investigations or criminal charges.

In Queensland, a state government has been turfed out of office after a Royal Commission revealed a web of corruption and inefficiency, in Tasmania and Western Australia Royal Commissions into corruption and cronyism are about to start, and in Victoria a crisis of confidence triggered by economic mismanagement threatens to drive the last nail into the decline of Melbourne as a business centre. Even New South Wales, tightly managed by one of the most efficient state governments, is facing a budget shortfall of up to A$200m as the recession bites into tax revenues.

Australia entered the 1980s on a boom of investment in resource industries which many hoped would fulfil its promise as the El Dorado of the southern hemisphere. It enters the 1990s wondering whether it is destined to experience the fate of Argentina, with which it shared top spot a century ago in the international league table of per capita gross domestic product. Australia was still in the top five in the 1960s, but had slipped out of the top 10 by 1986. Earlier this year, in the Organisation for Economic Co-operation and Development's annual report, it had fallen to 17th.

It would be easy, in the present atmosphere of gloom, to forget that statistics can easily paint an inaccurate picture, especially in living standards. Australians live better, in their spacious, sun-soaked South Pacific island, than most people in countries with higher per capita income. They enjoy excellent food and wine, they live in airy, comfortable houses by a stunning coastline and a warm sea, and most have leisure to explore the large areas which remain unspoilt.

Yet the Argentine nightmare is a potent one, and it has been used repeatedly by Mr Hawke's government to help chivvy a conservative and reluctant population down the road of reform. The basic argument is that the problems stem from the inward-looking national mindset which developed after the federation of the six former British colonies in 1901. Consumed by the battle between federal and states rights, and fearful of the teeming millions on their northern borders, Australians sought to defend their first world status through economic and social protectionism designed to keep out cheap goods and cheap non-white labour, and a centralised industrial system intended to insulate them from the labour problems of the old world.

They call it the lucky country because every time the system looked like breaking down, it was rescued by a commodities boom. It would be going too far to say that the luck has run out, but there is a growing recognition that the old system could not continue. Argentina fell into decline because it failed to adapt to a more open world economy, taking refuge instead in high tariffs and protected state-owned industries. Australia can make the transition from an unsophisticated commodities exporter to a high technology value-added economy, but only if it turns its attention outwards and learns to match the best of the rest of the world. That means accepting the importance of open markets, and abandoning the idea that governments can maintain prosperity regardless of what happens elsewhere.

Mr John Howard, Treasurer (finance minister) in the last conservative government up to 1983, began the process of facing up to reality by removing some of the constraints on the financial system. But Mr Hawke's government, under the intellectual leadership of Mr Paul Keating, the current Treasurer, has grasped the nettle of thoroughgoing reform.

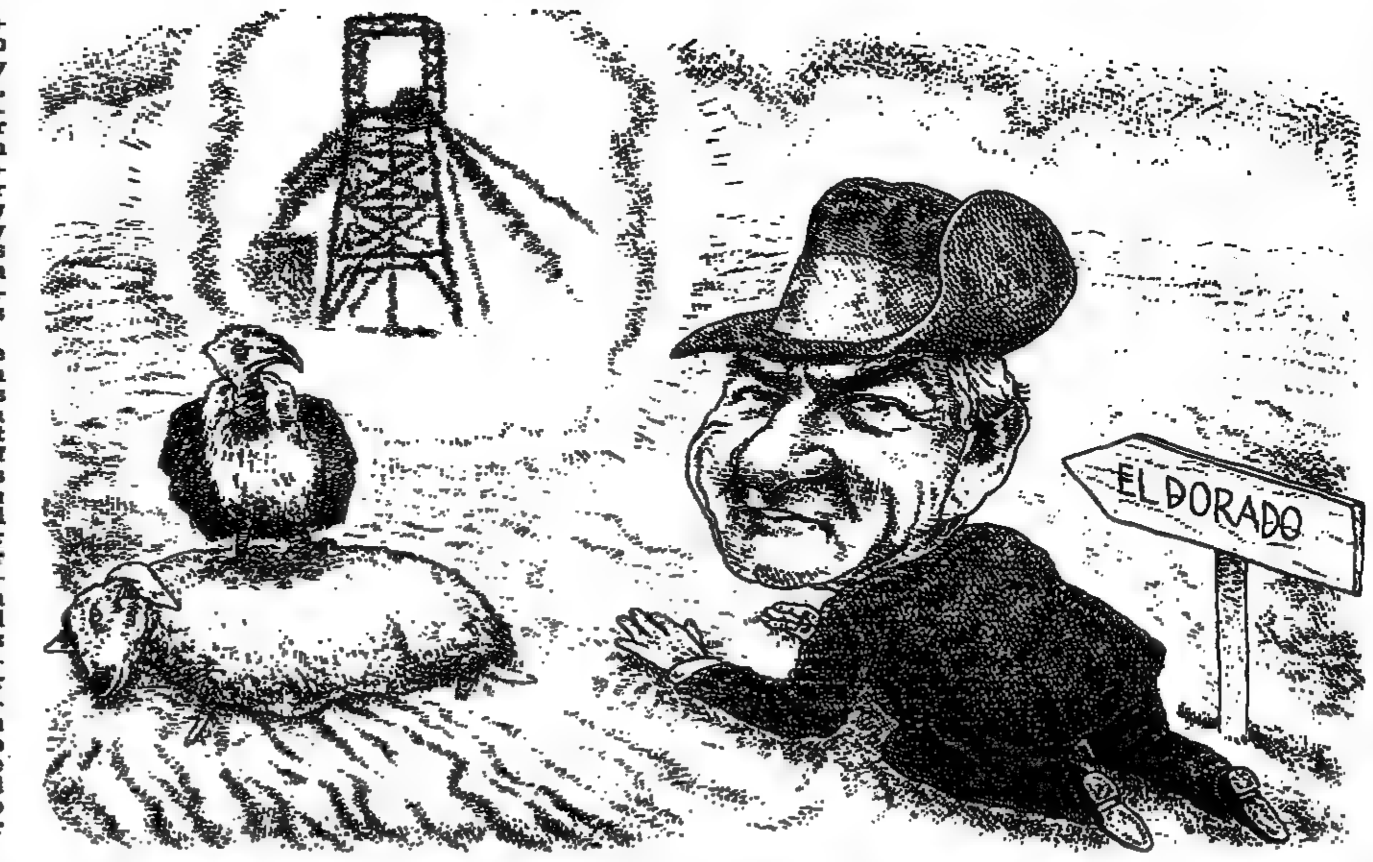
The financial system has been deregulated, allowing foreign banks to come in and shake up the domestic industry, the currency has been floated, protective tariffs have been reduced by nearly two-thirds, and foreign investment restrictions have been eased. The government is now embarking on widespread micro-economic reform – deregulation of aviation and telecommunications, partial privatisation of the government-owned Commonwealth Bank, and attempts to reduce the costs of using land transport, shipping and ports. Even the costly federal structure, which provides nine governments for 17m people, is to be reviewed at a constitutional conference next year.

Part of the reform process has been coming to terms with geography: recognising that the long fight to remain an antipodean outpost of Europe has been in vain. "It is simply no longer an option for Australia to see itself first and foremost as a transplanted European nation, a cultural misfit trapped by geography," says Senator Gareth Evans, foreign minister. Asian faces are common now in the streets of Australia's big cities, and Asian businessmen and political leaders will no doubt soon begin to emerge. Even without the growing Asian presence, Australians could hardly ignore the fact that more than half their exports and more than 40 per cent of imports are directed to or sourced from their Asian neighbours, while around 25 per cent of foreign investment comes from there.

Australia's growing recognition that it is part of one of the world's most dynamic regions has prompted a series of diplomatic initiatives over the last few years intended to send a signal that it finally wants a relationship of equals. Australia has led attempts to find a solution to the intractable Cambodian problem, and Mr Hawke deliberately rejected decades of Australian suspicion of Japan by urging Tokyo to play a bigger role in world affairs, including a military role if it wished. In the economic sphere, it was Australia which floated the idea of Asia Pacific Economic Co-operation (Apec) which has already led to multilateral negotiations between 12 regional states on input into the Uruguay Round of the General Agreement on Tariffs and Trade talks.

There is no guarantee that reform at home and Asianisation in external relations will provide the prosperity Australia seeks. Many battle grounds remain, such as waterfront labour relations, and constraints on mining which could threaten the development of Australia's greatest single resource. The government is also open to the criticism that it is moving too slowly.

But there is a strong, cross-party consensus on the need for an open, competitive economy, and those voices crying for a return to protectionism are not likely to make much headway. The short-term will be painful, as Australians struggle to overcome a ruinous current account deficit and high foreign debt. But if Australians can find the confidence to compete, there is no reason why the 1990s should not be a decade of recovery. As Mr Richard Woolcott, Secretary of the Department of Foreign Affairs and Trade, said: "The unattractive alternative would be to find Australia increasingly marginalised as we approach the next century."



IN THIS SURVEY

Editorial production: Roy Terry
Illustration: Grant Robertson

Who is running the government? asks **Kevin Brown**

Political heavyweight

ONE man bestrides Australian politics like a colossus. Not Mr Bob Hawke, prime minister since his rejuvenated Labor Party swept to office in 1983 after eight years in the wilderness, but Mr Paul Keating, the dominant influence within the Labor Party and federal politics generally.

The country's Treasurer (finance minister) and deputy prime minister, he is the intellectual driving force of the government.

The Hawke/Keating partnership has been an effective one for Labor. It has allowed Mr Hawke to concentrate on maintaining the stability of Labor's fractious internal coalition while Mr Keating has taken the hard decisions on economic policy.

The arrangement has the electoral advantage of protecting the prime minister's image as a man of consensus by distancing him from some of the controversy of policy making.

But it also raises the question of who is really running the Government in an environment where many of the most important policy initiatives are launched by the nominal second in command.

The conservative Liberal/National Party opposition coalition has little doubt – it concentrates almost all its fire on Mr Keating, largely ignoring the prime minister in the hope that the sometimes controversial Treasurer will turn out to be Labor's weak link with the electorate.

Mr Keating also has little doubt about his status. He treats Mr Peter Reith, the shadow Treasurer, with contempt, and reserves most of his ammunition for Mr John Hewson, the coalition leader. Mr Hewson reciprocates, tacitly acknowledging where Labor's intellectual heart lies.

The problem for Labor is the never-ending speculation about how long Mr Keating will be prepared to play second fiddle. Serious rumour-mongering of a Keating coup has dogged Canberra for at least three years.

The latest outbreak was sparked last month by the resignation of Mrs Margaret Thatcher, the British prime minister, after 11 years in office. Maggie's gone, why not Bob, some commentators pondered.

The rumours were given further substance by the coincidental announcement of the appointment of two high profile advisers to Mr Keating's personal staff, as if he was indeed gearing up for a leadership run.

Much of the speculation can be put down to the peculiar hothouse atmosphere of Canberra, a one-industry capital city where federal politicians live and breathe political gossip.

But there are several good reasons why the leadership question is rising to the top of Labor's agenda. First, Labor trails the coalition by 18 points in the latest opinion poll, and

There are several good reasons why the leadership question is rising to the top of Labor's agenda

Mr Hawke trails Mr Hewson by 22 per cent. That comes as a blow to a party which has always been able to count on the popularity of its leader to carry it through hard times.

Second, Mr Keating has gone out of his way to adopt the mantle of leadership. It was Mr Keating, not Mr Hawke, who stamped out a push from other senior ministers for a less deregulatory policy framework. And it was Mr Keating who led the Labor charge when vested interests in the coalition blocked some of Mr Hewson's plans for lower government spending.

Third, Mr Keating has tried before. Mr Hawke was told by several senior ministers that he ought to make way for the Treasurer in 1988, Australia's bicentenary year.

Mr Hawke refused to go, and his reluctance to leave the scene remains the principal reason why a Keating coup is unlikely. For if Mr Hawke has become less popular in the country, the Treasurer looks very much like a public relations disaster.

In a recent poll by Morgan Gallup for the Bulletin magazine, Mr Keating scored just 29 per cent of preferences as Mr Hawke's preferred successor, compared to 51 per cent for Mr Kim Beazley, the transport and communications minister.

Mr Keating fared better among Labor supporters, scoring 48 per cent compared to 35 per cent for Mr Beazley, and almost certainly has even greater support in the parliamentary party, which is controlled by the New South Wales right-wing faction of which he is a leading member.

Nonetheless, Mr Keating knows that a failed attempt to dislodge the prime minister would probably end his chances for good. On the other hand, if Labor wins the next election, due by 1993, he will almost certainly inherit the crown during the next parliament.

Mr Hawke, 61 yesterday, remains fit and well, and says he intends to lead Labor into a record fifth term in government. Powerbrokers such as Mr Bob Hogg, Labor's national secretary, and Senator Graham Richardson, a leading NSW right-winger, see him as the party's best chance, and left-wingers see him as preferable to Mr Keating.

"The Prime Minister will determine his own future; my own view is that he is there for the long haul," said Mr Hogg. "They have been a good duo to date, and I don't see why the combination cannot continue for the party's benefit."

Mr Keating, bowing to the inevitable, says he still wants the job "but only if the opportunity presents itself in a natural way". The upgrading of his office probably means only that he has decided to stay the course, rather than leave politics for a plum job in private industry or an international financial institution.

If he is relying on a Labor election victory, Mr Keating appears to have got the economic timing right. He has induced a recession to rein in a ruinous current account deficit, and is now forecasting a recovery in the second half of next year. If he is right, the election could come in early 1992, especially if increasing demand looks like forcing up the current account deficit again.

If the recession is deeper and longer than expected, as forecast recently by Mr Bernie Fraser, Governor of the Reserve Bank, the election can be delayed as late as March 1993 to allow the economic indicators to start moving in the right direction.


Terry Kirk
Keating: driving force

But it could be close. Labor had an easy ride in 1987, when the conservative coalition was split by an independent campaign launched by Sir Joh Bjelke-Petersen, former National Party premier of Queensland, and again in March this year, when the conservatives were handicapped by a widely disliked leader, Mr Andrew Peacock.

The Liberals now have in Mr Hewson a leader who has broken a 10-year cycle of internecine warfare between Mr Peacock and Mr John Howard, another former leader, and shows signs of giving the party a much clearer definition than it has managed for several years.

The smaller rural-based National Party wing of the coalition was reduced from 18 seats to 14 at the election, largely because of the impact of revelations of corruption in Queensland, where Sir Joh's government crashed to humiliating defeat last year.

But the Nationals also have a new leader, and the energetic Mr Tim Fischer looks likely to improve the party's performance in provincial Australia as memories of Sir Joh fade.

Hewson and Fischer have already taken several tough decisions ducked by previous leaders, including the adoption of a broad-based goods and services tax to reduce distortions in the tax system, and the reduction of protectionist tariffs to "negligible" levels by the turn of the century.

Pressures will mount as the government steps up the attack nearer to polling day, but, for the first time in years, the coalition looks like going into an election on something like equal terms.

Can Labor transform a weak economy? **Kevin Brown** reports

An engineered recession

AFTER nearly a year of uncertainty, the statisticians have finally confirmed what most Australians have known for months: the country is in recession for the first time since 1981-82.

Figures issued by the Australian Bureau of Statistics show a weak economy. Real gross domestic product (GDP) fell by 1.6 per cent in the three months to September, following a fall of 0.4 per cent in the three months to June.

The economy has now contracted in three of the last four quarters, and is down 0.7 per cent over the last 12 months, the first negative 12-month figure since June 1983.

Mr Paul Keating, the treasurer who once promised Australians they would never suffer a recession under a Labor government, now says the slowdown is "the recession that Australia had to have".

He engineered the recession by raising official interest rates to 18 per cent to rein in a current account deficit which reached A$21bn last year, equivalent to 5.5 per cent of GDP.

A lower current account deficit would reduce the growth in Australia's net foreign debt, which reached A$124.5bn in September, up A$6.8bn in a year and equivalent to around 32 per cent of GDP.

So far, the medicine is working. Imports are down 4.4 per cent over the past six months, compared to a 3.8 per cent increase in exports. The deficit looks likely to fall at least to the budget forecast of A$18bn, or 4.5 per cent of GDP.

The question is, what happens when the brakes come off? Will the deficit rise again, or can Australia achieve a permanent reduction in the current account deficit to around 2.5 per cent of GDP – the level at which most economists think the foreign debt will stabilise?

The long-term strategy has been to open up the economy to market forces in an attempt to promote the international competitiveness which it sees as the only long-term guarantee of living standards.

To this end, the dollar has been floated, the banking system deregulated, nominal tariffs on manufactures reduced from more than 30 per cent to around 11 per cent, with a target of near zero by the turn of the century, and government-owned industries are being privatised to stimulate efficiency.

Deregulation has been accompanied by a tight fiscal

The economy has now contracted in three of the last four quarters

policy which has reduced federal spending from 30 per cent of GDP to 26 per cent, and cut the public sector borrowing requirement (PSBR) from 6 per cent of GDP to a forecast of zero this year.

The government's Accord with trade unions – basically a trade-off of tax cuts in exchange for wage restraint – has kept the lid on wages and helped cut inflation to an annual rate of 6 per cent.

Real wages are down 5 per cent since 1982-82, contributing to a reduction of 10.5 per cent in real unit labour costs and an increase in the gross corporate profit share from 11.4 per cent to a record 15 per cent.

However, the profit share improvement, combined with a premature easing of monetary policy after the 1987 stock market crash, led to a surge in fixed business investment from around 9.5 per cent of GDP in 1983 to a peak of 14.5 per cent in 1988-89.

It is that surge, combined with the inability of domestic industry to keep pace with rising demand, which is responsible for the unsustainable growth in the current account deficit.

Mr Keating claims the investment boom laid the groundwork for a more productive economy which will transform Australia in the 1990s. On his analysis, the recession will moderate investment to a level at which it will not fuel a renewed current account crisis, probably somewhere around 11 or 12 per cent of GDP.

However, some critics doubt this analysis. Mr Bill Shields, chief economist of Macquarie Bank, says most investment has been in the non-tradeable sectors of the economy, and much of what has been invested in the tradeable sector was to replace worn-out plant. "The replacement of old by new capital equipment always brings some incremental increase in capacity. However, it is unlikely ever to provide the sort of capacity increases that are necessary to sustain reasonable growth rates in domestic demand and at the same time provide additional production for exports or import competition."

Scepticism about the Keating strategy has grown as the economy has worsened, spawning radically different alternative strategies promoted by two loose groupings.

The first group, supported to varying degrees by those such as Senator John Button, minister for industry, technology and commerce, Mr John Dawkins, minister for employment, education and training, and organisations such as the Australian Manufacturing Council, wants a return to "assistance" – for which read protection – for export industries.

The second, which includes the conservative opposition and most business leaders, says the economy is in trouble because government reforms have been too timid and too slow, particularly in the areas of government spending cuts and labour market reform.

"The government is not moving with sufficient urgency," says Mr Brian Loton, chief executive of BHP, Australia's largest company, and head of the Business Council. "There has been a lot of well-directed concern, but not much result in terms of more competitive services to customers."

"Nothing has been done to address any of the problems which caused the current account deficit," says Mr John Stone, a former National Party senator who is now a consultant to the free-market Institute of Public Affairs. "Unless the government is going to keep the economy totally sedated we will be right back in the hole from which we are supposed to be emerging."

Mr Keating has unequivocally rejected any return to protectionism, saying that Australia's problems stem from 40 years of mollycoddling industry. But he is on less solid ground against those arguing for faster reform and deeper spending cuts – the Accord, for example, has helped restrain wages growth and promote industrial peace, but at the cost of an even tighter fiscal policy.

Meanwhile, the government faces growing calls to stimulate the economy in the short term by cutting interest rates.

There are other problems too. The Commonwealth Budget is now unlikely to reach the forecast A$8bn surplus because of extra tax cuts conceded under the latest Accord agreement and revenue losses caused by delays in privatisation proposals.

Australia's terms of trade are turning downwards, and the effect on exports may not be fully alleviated by a depreciation in the exchange rate because of the effect of high interest rates and Australia's safe haven status in the event of a Gulf War.

Mr Keating remains convinced that his strategy is the only viable option. But it will require strong nerves to stand firm against the howls of pain which are likely to be heard over the next year.

TRADE

Swing towards the Far East

IF YOU want to anger an Australian farmer or politician, mention the European Community's approach to liberalising world trade in agricultural products.

Mr Neil Blewett, trade negotiations minister, accused the EC recently of "procrastination and intransigence" over agricultural protection, and called into question the Community's commitment to genuine reform of its protectionist Common Agricultural Policy (CAP).

"This country has carried through significant reform in agricultural trade which has caused us quite a lot of pain, and we believe the Europeans are capable of carrying out reform too," Mr Blewett said.

The CAP strikes at the heart of Australia's competitive advantage in agricultural production, not just by limiting exports to Europe, but by subsidising European exports to other countries, in competition with Australian produce.

As one of the world's most efficient agricultural producers, Australia is also one of the few which does not provide wide-ranging subsidies or assistance, and is therefore particularly vulnerable to the distortion of trade through subsidies or protectionism.

Australian dependence on agricultural trade has fallen from 84 per cent of merchandise exports in 1953/54 to 32 per cent last year, or 26 per cent including services. However, farm products remain a central sector of the economy, not least because farming is the key to the prosperity of large parts of Australia.

In addition, the ability of the Australian government to achieve progress towards free trade in agriculture is regarded within the country as the flip side of its commitment to opening up the economy by reducing protection for manufacturing industry.

Australia has reduced average nominal tariffs on manufactured goods from more than 30 per cent to 11 per cent over the last 20 years, and while tariffs are still higher than the average world level of 5 per cent, both leading political groupings are committed to reducing protection to "negligible levels" by the year 2,000.

That policy is unlikely to change in the short term because of bipartisan agreement on the benefits to competitiveness of removing the protectionist cushion on which industry has relied. But calls for a return to protectionism would be strengthened by a failure to achieve significant liberalisation in agriculture.

For these reasons agriculture assumed a central role in Australia's approach to the Uruguay Round of the General Agreement on Tariffs and Trade, even though it stood to gain significantly from agreements on trade in manufactures and services.

As chairman of the Cairns Group of 14 agricultural exporting nations, Australia played a leading role in forcing the Gatt to negotiate on agricultural trade for the first time since the first Round in 1948.

The Cairns Group's tough line – that there would be no agreement on the other 14 trade sectors under negotiation without a satisfactory agreement on agriculture – successfully forced the EC to negotiate, but Australia was under no illusions that the group would achieve the 75 per cent cut in internal support and export subsidies it sought.

"We are prepared to be flexible, but we expect the same flexibility from the Europeans. We recognise we have to try to pursue a compromise. But a compromise is not one group moving from their position simply to accept the position of another group." Mr Blewett said recently.

Australia expected the negotiations to drag on for some time. Mr Bob Hawke, the prime minister, recently announced plans to put Australia's case to EC leaders in Brussels, Paris London and Bonn next month, and other ministers said privately they thought the talks might go on for a further year.

AUSTRALIAN EXPORTS BY DESTINATION (%)	1968-69	1989-90
Asean	5.9	10.8
Other developing countries	16.3	27.8
UK	12.8	3.6
Other EC countries	13.7	11.0
Japan	25.3	26.6
US	14.5	10.9
New Zealand	4.7	5.2
Others	6.8	4.3

Source: Australian Bureau of Statistics

Australia ruled out a unilateral withdrawal from the talks, in spite of pressure for a walk-out from Latin American members of the Cairns Group and, to some extent, from the conservative Opposition, which said a failed Round would be preferable to an unsatisfactory deal.

In Mr Blewett's view, the consequences of failure would be immense: the US would increase its protectionist Export Enhancement Scheme and use the punitive unilateral measures provided in the Super 301 clause of the 1988 Trade Act; the European Community would step up export subsidies; and there would be no incentive for Japan and South Korea to open their protected markets.

Australia, a big country with large agricultural production and a small population, would be unable to compete in a subsidies war, especially in the area of export incentives, and would lose markets to the big two producers.

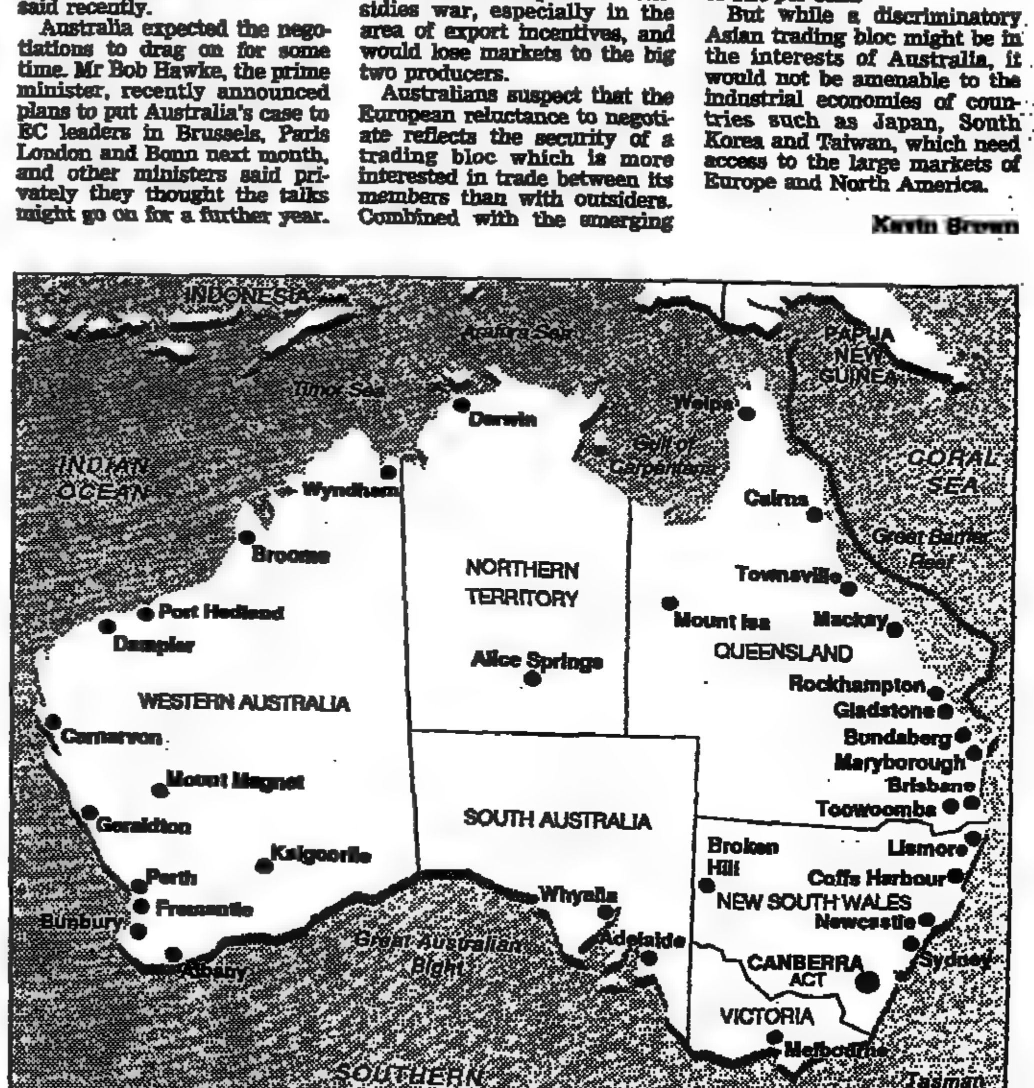
Australians suspect that the European reluctance to negotiate reflects the security of a trading bloc which is more interested in trade between its members than with outsiders. Combined with the emerging prospect of a North American trading bloc including the US, Canada and Mexico, that thought is enough to give Australians nightmares.

Concern about being squeezed out of European and North American trade has led to talk in Australia of forming an Asian trading bloc based on the Asia Pacific Economic Cooperation (Apec) initiative launched in 1989 by Mr Hawke.

Australian trade has been swinging away from Europe and North America and towards Asia for decades: for example, exports to Japan, the nations of the Association of South East Asian Nations and other developing countries (mostly Asian nations, including South Korea and Taiwan) have increased from 47.5 per cent in 1968/69 to 65 per cent last year. Exports to the EC have fallen from 26.5 per cent to 14.6 per cent.

But while a discriminatory Asian trading bloc might be in the interests of Australia, it would not be amenable to the industrial economies of countries such as Japan, South Korea and Taiwan, which need access to the large markets of Europe and North America.

Kevin Brown



Australia reviews its place on the international stage, writes **Andrew Baxter**

Turning a new page with Japan

IF THE average Australian was asked to name the country's most important foreign policy initiative this year, one could guess what the answer would be.

Even in a country where defence and diplomacy are not exactly burning issues of conversation around the barby, few could have ignored the decision to send two guided-missile frigates and a supply ship to the Gulf – less than a fortnight after Iraqi forces invaded Kuwait.

The move showed that, in the words of Senator Robert Ray, Australia's defence minister, "there is still something to be said for old, enduring alliances". But while there was some initial fuss at home over the handling of the decision, it would be easy to overstate its importance in the context of the country's foreign policy priorities as a whole.

Canberra is keeping its options open about any further involvement in the Gulf crisis, but its initial prompt response was deliberately symbolic. If a country thousands of miles from Kuwait and less directly affected by the crisis than most could act quickly and decisively, it would send a strong signal that "a naked piece of regional aggression" should not be tolerated, says Senator Gareth Evans, foreign minister.

The broad thrust of Australian foreign policy is more pragmatic, focusing on world issues where a country of its size can make a substantial contribution, and on Australia's evolving role in the Asia-Pacific region. So a major bilateral issue such as nuclear weapons is left to the "big boys", according to Mr Evans, leaving Australia to respond creatively to topics such as chemical weapons, Southern Africa and global warming.

Mr Evans hopes that this focus on "quality of life" issues will at least do Australia no harm when it comes to negotiating on "harder-headed" economic, trade and strategic matters. There are critics of the approach, however, such as senator Robert Hill, shadow foreign minister, who believes the Labor party has tended to "float over the surface of world issues, finding a niche for Australia in all of them".

'There is still something to be said for old alliances'

More seriously, Mr Hill accuses the government of neglecting Australia's "own backyard" and some important regional relationships in its quest for a role in world issues. It is true that Australia's realisation of its importance in Asia is relatively recent, but Mr Evans and prime minister Hawke are working hard to make up for lost time.

Underpinning the new regional approach is a sense of Australia's economic importance in the region. Despite its small population, Australia's GDP is more than that of the Asean countries combined. "We are as big as our land mass in terms of our clout economically," says Mr Evans.

Now the regional reappraisal has received a fresh stimulus from the beginnings of a US military withdrawal, prompted as much by budgetary constraints as the ending of the cold war. Senator Peter Durack, shadow minister for defence, said: "The US decision to begin a phased withdrawal from the Philippines as well as from around a dozen other bases in the region indicates that it intends to reduce its presence much faster than anticipated. The practical consequence of this will be a declining superpower regional presence at the same time as a number of major indigenous powers are enhancing their own military capabilities."

Australia has made clear it wants the US military presence in the region to continue, and that even if a strategic vacuum were to be created it would not have the means to fill the gap in any substantial form.

But, viewed from Canberra, the regional outlook still contains plenty of uncertainty, as events in China have shown. Furthermore, Australia's co-operation with the US – in the satellite early warning station network, for example – has brought a whole new sense of global responsibilities to discharge, says Mr Evans.

Accordingly, he says, "the concept is rapidly taking root of Japan and Australia as the northern and southern anchors of the Western Pacific alliance". Inevitably, therefore, Australia's relationship with Japan, which for years was based purely on economics, is now "rapidly developing extra layers".

For many older Australians, this is a sensitive issue, and the government will have to be careful not to get too far ahead of Australian public opinion. While Mr Evans believes that ill-feeling towards Australia's powerful northern neighbour is a "passing phase", Mr Hill says the relationship is one about which many Australians are still uneasy.

Mr Evans puts a more positive gloss on the recent Japanese military build-up than his political opponents or some of Australia's neighbours, viewing its basic characteristics as aimed at self-defence. The two countries do not have much of a defence relationship at present, and while Australia wants Japan to take a more active role on the world stage, Canberra has not suggested this extends to an expanded regional defence role, says Mr Ray.

Australia's new-found emphasis on making an impact in regional strategic affairs was best illustrated this year by its involvement in the Cambodia peace process, where it won international recognition for its efforts to break the deadlock via an enhanced role for the United Nations.

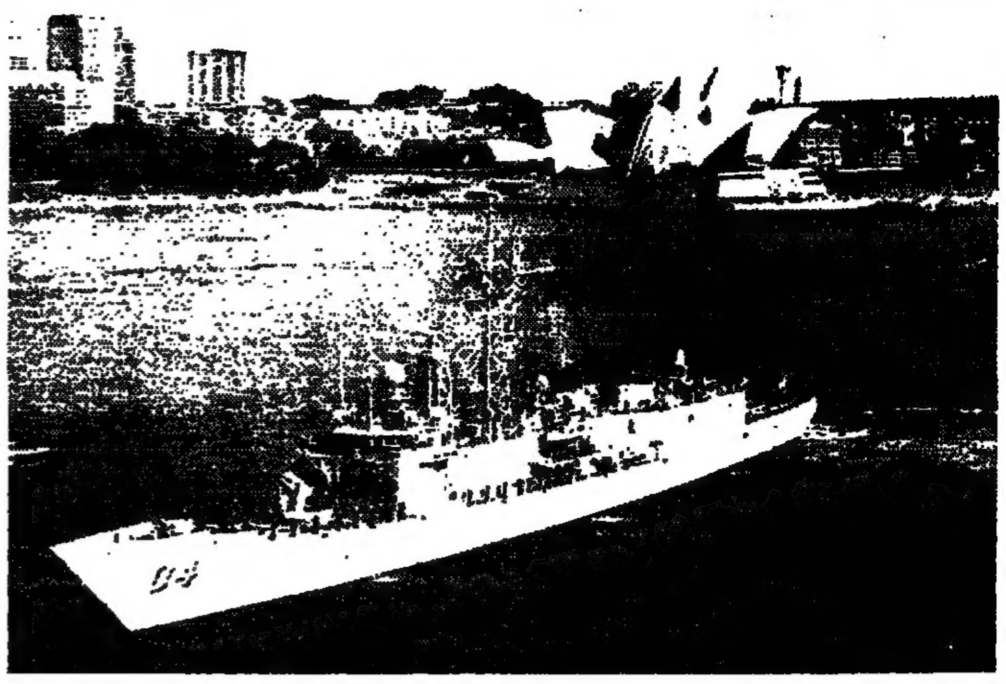
But the new approach is also reflected in attempts to improve important bilateral links. Mr Evans says a "major self-conscious" effort has gone into rebuilding the historically volatile relationship with Indonesia, culminating last year in the ending of a long-running boundary dispute that froze exploration for oil in the Timor Gap. The hope is that such initiatives will help dispel the unease towards Indonesia and its 180m poulation, often felt by those few Australians who can claim to live next door.

Ironically, the source of the original setback in relations with Indonesia – adverse Australian media coverage – is now causing a mild contretemps with Malaysia.

But there are more central bilateral links, such as that with post-coup Fiji, where Australia faces an uphill battle in developing a relationship. Fiji recently turned down a visit by Mr Evans because he criticised its new constitution. Elsewhere, relations with India are also going through a sticky patch because of Australia's sale of Mirage fighters to Pakistan.

Looking eastwards, the election in October of Mr Jim Bolger's National Party government in New Zealand has been broadly welcomed in Australia, even if, as seems almost certain, New Zealand retains its ban on visits by nuclear-powered or nuclear-armed ships.

The ban, imposed in 1986, has put the three-way Anzus defence treaty with the US under severe strain, but what worries Australia more is the prospect that New Zealand might pull out of a NZ$1bn contract to buy two frigates from its neighbour across the Tasman Sea. Cancellation would have serious consequences for relations between two of the region's oldest allies.



Prompt response: HMAS Darwin sails out of Sydney harbour bound for the Gulf

DEFENCE

Battle of the brass hats

CONTINUING uncertainty abroad and economic problems at home are forcing Australia to take a hard look at the value it gets from its A$8bn defence budget.

Defence spending accounts for about 2.3 per cent of gross domestic product, a long way from the post-war peak of about 4.3 per cent in 1967-68. "The political and economic reality is that there will be no real growth over the next five years. But I am hoping there will be no reduction", says Senator Robert Ray, defence minister.

Against this background the identification of cost savings in the Australian Defence Force (ADF) has become a top priority and, although it would be too much to claim bipartisan support, there is at least a developing consensus that changes can and should be made.

The focus for the new approach is a controversial report by Mr Alan Wrigley, a former senior defence diplomat, which argues that the ADF's structure is not suited to Australia's strategic priorities in the 1990s.

The report, which has had a hostile reception from service chiefs, urges much greater use of civilians in support roles (allowing service staff to be shifted into combat roles), a near-doubling of reserve numbers to around 40,000 and a 32 per cent reduction in regular numbers to about 50,000.

In spite of this, the total number of combat and combat support personnel would rise by 34 per cent under Mr Wrigley's proposals, thus answering criticism that insufficient resources are getting through to "the sharp end".

Mr Wrigley says there could be a large transfer of activity from regular military personnel and Defence civilians to open competition within the civilian infrastructure, and is confident that "major financial savings can be gained from competitively involving the private sector, on the basis of extensive experience overseas in recent years".

The root of the problem, says Mr Wrigley, is the ADF's outmoded "expeditionary force" structure, with the military insisting on handling as much as possible of the support services themselves and not relying on the national infrastructure. Mr Wrigley believes Australia should base its structure on the concept of sovereignty/defence, developing a "total force" which better involves civilians via the expanded reserves.

The report has run into flak as much for its forthright language on the self-absorption of the ADF as for its specific proposals. For some MPs, the service chiefs' long official silence on the proposals only served to confirm their aloofness from the rest of the community.

But last month, ADF brass hats came out fighting: Vice-Admiral Michael Hudson, chief of the naval staff, told a parliamentary sub-committee that the proposals would undermine operational strength – to such an extent that the navy would have been unable to deploy to the Gulf.

Mr Ray says the proposals will be considered in the context of a full defence review, which will lead to a ministerial statement in May. But he agrees that "hundreds of millions of dollars" of savings have been identified in areas such as logistics and stores, and even hints that "in some ways we have to go further" than Mr Wrigley envisages.

In a sense, the armed forces are now being exposed to some of the thinking behind the government's programme for structural reform of the micro-economy. The difference, perhaps, is that Australia's strategic outlook is rather more benign than the prospects for its civilian economy and industrial scene.

Andrew Baxter

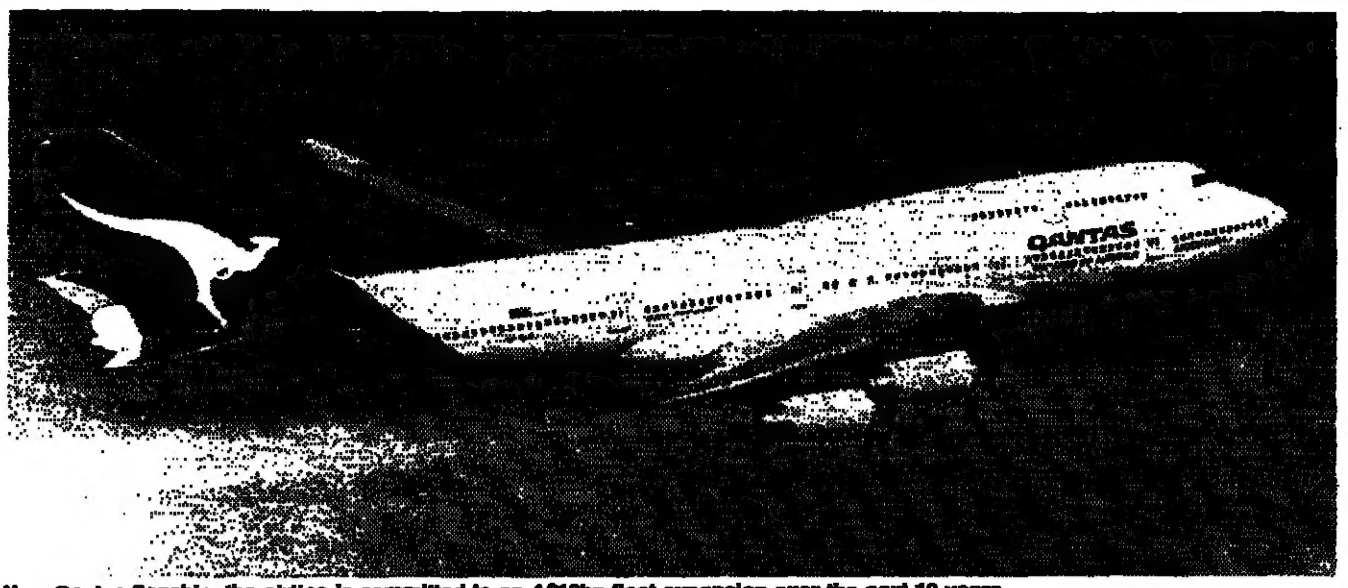
KEY FACTS

Area	7,682,300 sq km
Population	16.8m (1989 estimate)
Prime Minister	Robert James Lee Hawke
Currency	Australian dollar (A$)
Average exch rate	1989 US$ = A$1.26 £ = A$2.07; 1990 US$ = A$1.27 £ = A$2.23

ECONOMY	1988	1989
Total GDP (US$bn)	248.0	283.4
Real GDP growth (%)	3.8	4.8
GDP per capita (US$)	15,003	16,856
Trade		
Current Account Balance (US$bn)	-10.2	-16.9
Exports (US$bn)	32.8	36.2
Imports (US$bn)	33.9	40.3
Trade Balance (US$bn)	-1.1	-4.1
Main Trading Partners (% of total value)		
EXPORTS		
Japan	26.0	27.2
EC	15.6	13.8
USA	11.4	10.2
IMPORTS		
EC	24.0	22.9
USA	21.0	21.5
Japan	19.2	20.8
Total external debt (US$bn)[1]	92.9	108.5
Consumer prices (% change pa)	7.2	7.6
Ind. wage rates (% change pa)	6.8	7.6
Unemployment (% of lab force)	7.8	6.6
Financial		
Reserves minus gold (US$bn)	13.6	13.8
Narrow Money growth (% pa)	24.0	20.8
Lending rate (% pa, ave)	18.5	21.7

1 Mid-year figures

Source: IMF, Economist Intelligence Unit



New Qantas flagship: the airline is committed to an A$10bn fleet expansion over the next 10 years

Andrew Baxter looks at the programme of micro-economic reform

Mr Hawke's flying start

IT IS tempting to see the distinctive kangaroo in flight on the tailfin of Qantas airliners not only as the emblem of Australia's international airline but as a metaphor for the government's far-reaching programme of micro-economic reform.

Prime Minister Bob Hawke is in a hurry to see results from a long-overdue thrust whose aim is to turn some of Australia's most laggardly industrial sectors into world-class performers. As it happens, one of the targets is aviation and state-owned Qantas itself, 49 per cent of which is to be sold.

"For too long," Mr Hawke told parliament last month while announcing the Qantas sale and a restructuring of telecommunications. "Australia was content to live with domestic inefficiencies and low productivity in too many of our domestic industries. It is this government's task vigorously and rapidly to sweep away those old arrangements and reshape our economy as a genuinely modern and competitive one."

The rhetoric associated with the micro-economic reform programme is impressive, and Mr Hawke delights in teasing the Opposition on the "dead hand of conservative inertia" that characterised 31 of the 34 years before Labor came to office in 1983.

In fact, the speed of the reform programme, or in some cases the lack of it, is one of the most contentious current issues in Australia. Structural change in the economy is a keynote of the Labor government's fourth term, and Mr Hawke claims there is "no earlier period that comes within a bull's roar of the progress we have made and are continuing to make." The Opposition, meanwhile, claims Mr Hawke's reforms are too little, too late.

In four important ways, the reforms are as Australian as Mr Hawke's metaphors. The rationale for privatisation, for example, is very different from the ideological thrust in the UK, and there are few illusions about creating a sizeable pool of small shareholders in a country of 17m people. Rather, the fact that foreign capital will be necessary to the privatisation process highlights the intention to expose companies to the test of world markets.

Beazley: archaic system

Second, much of the attention has been focused on the privatisation, in full or in part, of big names such as Qantas or Australian Airlines, the state-owned domestic carrier which is to be fully sold. But Mr Des Moore of the Institute of Public Affairs, a Melbourne-based think-tank, says the real need for privatisation is less at the Federal than at the state level. Here, New South Wales under the Liberal/National government of Mr Nick Greiner has set the pace, but other states, such as Queensland and Western Australia, are readying plans to restructure their government business enterprises (GBEs), many of which have a poor return on capital.

The overwhelming majority of public enterprises are in state and local government hands, with assets (excluding land) of more than A$240bn. But assets sales have realised only A$2bn, compared with A$3.6bn at Federal level over the past three years, and Mr Moore wants greater pressure on the states from Canberra to speed up the process. In total, public trading enterprises account for about 10 per cent of Australia's gross domestic product, relatively high for industrial countries, and the Organisation for Economic Co-operation and Development has estimated removal of inefficiencies in QBEs could lift Australia's GDP by 3 per cent.

A third, and related point is that privatisation is just the most visible element in a programme that includes deregulation, corporatisation and commercialisation – often as a prelude to privatisation – tariff reduction and, most important, labour reform. The reforms on the waterfront illustrate this multi-faceted approach, as moves towards a single union in the industry have been accompanied by new stevedoring arrangements for bulk grain ships, the negotiation of enterprise agreements between managements and unions which are expected to lead to productivity gains of up to 60 per cent, a closer watch by authorities to ensure that users receive the benefits of reform, and improvements in the efficiency of the Australian shipping fleet.

All these initiatives, listed by Mr Hawke in his statement, sound impressive, but it is a measure of the structural problems in some industries that the Opposition and right-wing commentators can argue convincingly that the reforms have so far only scratched the surface. This is because of the fourth, and most striking difference between "Aussie rules" micro-economic reform and its counterparts elsewhere.

Professor Henry Ergas of Monash University notes that micro-economic reform is an "inherently political process, as it changes the rules about the behaviour of different actors" and at that level Australia has not been exceptional. But the crucial difference is that Australia's reforms have involved negotiation at every stage between vested interests – trade unions, state governments and the Labor Party itself – and the Federal government, which has been keen to avoid confrontation such as last year's crippling five-month airline pilots' strike.

The result, says Prof Ergas, is that the government has tended to buy outcomes, providing offsetting benefits to whichever interest group may be the loser from reform. On telecommunications, for example, the need to buy acceptance from telecom unions for the sale of Aussat, the satellite carrier, and other reforms meant that "though we got the liberalisation, we not only paid for it, but we paid retail".

Given these constraints, it might seem surprising that the reform programme has achieved so much, particularly when viewed as a process that began with the liberalisation of financial services, floating of the Australian dollar, and tax reform of the first three Labor terms. But the commitment of a small group of senior ministers, and especially Mr Paul Keating, Federal Treasurer, has been a crucial element in surmounting the opposition of Labor Party left-wingers for whom public ownership remains a shibboleth.

These political difficulties are reflected in the approach to aviation reform. Here, at least, there is a similarity between the Australian and overseas rationale for privatisation – the need to find a formula for capital-hungry state companies to raise money their owner is unable or unwilling to provide.

Greiner: set the pace

Mr David Jull, shadow minister for aviation, says Qantas has always been undercapitalised and suffers from management problems due to a "post-World War structure". But he doubts whether the sale of a 49 per cent stake will make much difference to Qantas financially.

The airline is committed to an A$10bn fleet expansion programme over the next 10 years, and the lack of capital resources in Australia increases the financial and strategic need for links with foreign carriers.

The government has imposed a 35 per cent limit on foreign shareholdings in Qantas, which wants an investment from an Asian carrier to strengthen its position in the Asia-Pacific region, and links with European carriers such as Lufthansa and British Airways.

But Mr David Price, a Sydney-based aviation consultant, warns that 1992 would be the earliest at which sale of the 49 per cent stake could go ahead, due to the airline's weak profit position. Net profits plunged to A$12.1m in the year ended June 30 from A$176.8m in 1988/89, due to soaring fuel prices, economic slowdown and the after-effects of last year's strike.

Glyn Genin

Aerial view of Sydney: reforms on the waterfront include new stevedoring arrangements for bulk grain ships

Ironically the dispute was a last chance for pilots to make big gains before the introduction of Australia's "open skies" policy in domestic aviation on October 31. The reforms ended the duopoly between Australian and Ansett, the private airline, and also deregulated fares, but in spite of the initial blaze of publicity for reduced fares, there is little evidence yet of full-fare ticket prices coming down much.

It is customary to blame the duopoly for the high cost of domestic air travel in Australia, and Mr Jull remarks that "Australians are fed up to the back teeth with the heavenly twins." But he warns of the impediments to new entrants into the market – shortage of landing slots – and believes privatisation of the Federal Airports Corporation, owner of all the major airports, would be the best solution.

The government hopes the reforms will encourage new entrants to the domestic market to provide competition for Australian and Ansett, but so far only one contender, Compass, has converted aspirations into reality. It begins flights this month with two leased Airbuses, and Mr Price says its low cost structure will allow it to offer fares 20-50 per cent below of its rivals. "It is a terribly difficult thing to start up an airline in Australia, but there is a great willingness among the travelling public to try it out," he says.

In spite of the attention devoted to the aviation and the waterfront, the government believes reforms of land transport offer the greatest potential gains – as much as A$4bn a year, according to one estimate. Australia has seven publicly-owned rail authorities, six of which – owned by the states – lose money. "It's an absurd and archaic system, with problems unique to a Federal system," says Mr Kim Beazley, Minister of Transport and Communications.

A recent special premiers conference in Brisbane made a start on cutting through the problems that have bedevilled Federal/state relations. The result was a commitment by governments to work towards a start-up date of July next year for a National Rail Freight Corporation.

The system of interstate rail freight loses A$300m a year, but consultants have forecast a profit of about A$37m by 1993-94, assuming heavy capital investment, and an enterprise-based union agreement. Agreement will be needed on the financial structure of the corporation before the private sector considers investing, and that will depend on further hard bargaining between Canberra and the states.

Wages, labour costs & productivity 1982-83 to 1989-90

	Nominal wages (national accounts basis)	Real wages (national accounts basis)	Real unit labour costs	Gross corporate profit share (%)	Labour prod (non-farm market sector)
1982-83	100.0	100.0	100.0	11.4	100.0
1983-84	104.8	97.6	95.4	13.8	103.6
1984-85	112.0	98.4	93.5	14.6	107.2
1985-86	118.9	96.4	93.1	14.3	108.8
1986-87	127.5	95.1	93.0	14.2	106.6
1987-88	136.2	94.8	91.8	14.9	109.2
1988-89	146.0	95.0	87.8	15.6	113.0
1989-90	155.5	95.0	89.5	15.0	110.5

Source: Department of Industrial Relations/ABS

LABOUR

Wriggling free of a straitjacket

"IF WE don't get this thing right, we're sunk." The words are those of Mr John Howard, former opposition leader and now shadow minister for industrial relations, but they could equally have come from the government or senior trade union figures.

Mr Howard's assertion encapsulates the virtually unanimous view of politicians and analysts that "this thing" – reform of labour relations and working practices – constitutes the most crucial precondition for the success of the government's micro-economic reform programme. But that is about as far as the consensus goes, because there are deep divisions over the way ahead and the efficacy of what has been achieved so far.

An economic assessment of Australia in April by the Organisation for Economic Co-operation and Development said the opportunity to increase productivity in manufacturing was being held back by a web of outdated and restrictive working practices, poor management and an industrial relations environment making change difficult.

"Management will need to be more forward-looking, better able to manage its human resources and capable of creating a coherent strategy of workplace reform ... union structures will have to be reformed," said the OECD.

Fortunately a start has been made in two key areas: rationalisation and amalgamation of unions, and modifications to Australia's arcane centralised wage negotiation process – known since the mid-1980s as the Accord, but with an ancestry going back to the turn of the century.

The Accord – between the Federal government and the Australian Council of Trade Unions (ACTU) – is widely criticised for distributing wage increases and gains from productivity improvements indiscriminately across the entire workforce, and freezing wage relativities between occupations and industries.

Professor Richard Blandy, of the Adelaide-based National Institute of Labour Studies, comments that while the Accord has been very successful at the macro-economic level for restricting pay increases, it has not brought improvements in productivity which can only develop at enterprise level. However, moves this year by the ACTU to have at least part of wage increases granted as "over-award payments" illustrated "a trend towards an enterprise focus rather than the straitjacket of the Accord over the past seven years."

But in spite of wishful thinking by some employers' spokesmen, the Accord is not about to fall apart, and the government/ACTU approach is rooted in a process of modification.

Many large employers, in fact, are fearful of the consequences if the centralised process were to wither away. "The concern," says Prof Blandy, "is whether one can take off the straitjacket and not have a wages blowout." But Mr Terry Ryan, policy director of the New South Wales Farmers' Association, argues that "it is at the enterprise level that workers have their own vested interest in ensuring the productivity and profitability of the firm they work for."

Employers are also worried by ACTU-sponsored moves to encourage amalgamations among unions, fearing the process will simply produce larger and stronger unions. "Whether or not such unions actually improve the efficiency of industry is a side issue that forms no part of the union strategy," says Mr Ian Spicer, chief executive of the Confederation of Australian Industry.

Howard: crucial precondition

The amalgamation trend is closely interlinked with the ACTU's rationalisation strategy, and the combined aim is a reshaped union movement of broad-based industry-wide units.

Mr Bill Kelty, ACTU secretary and a protégé of the prime minister, has a long-term aim to reduce the number of Australia's unions from 300 to about 20, while Senator Peter Cook, Industrial Relations Minister and a former ACTU official, aims to have one bargaining unit in each workplace within six years.

But progress has been slow so far. On the waterfront, a sector famed for its Spanish practices, the ACTU is seeking to create one union out of two dozen, using the Waterside Workers' Federation as a base. But substantial productivity gains from a reduction in demarcation disputes and overmanning will take time.

The union restructuring is not necessarily a negative trend for employers, and will at least lead to a simplification of union/management relations. And given Mr Kelty's close links with the government, and hence to the future of the micro-economic reform programme, he will be keen to ensure that this strengthened role for the trade union movement in industrial relations will be used positively.

Andrew Baxter

TELECOMMUNICATIONS

Set to ring the changes

ONE OF the keynotes of the government's micro-economic reform programme this year has been a determined effort to ring the changes in telecommunications.

The main aims were spelt out in a statement to parliament last month by Prime Minister Bob Hawke. By opening the industry to competition and improving efficiency, the government hopes to pass on significant benefits throughout the economy, and ready the telecommunications sector for export opportunities in the Asia-Pacific region.

"We are taking one of Australia's biggest industries and reshaping it into a new, vastly more dynamic structure," Mr Hawke told MPs. The announcement came after some months of debate, inside and outside the cabinet, on how to achieve this.

The plan aims to keep as many interested parties as possible happy, while going further than the Labor Party had, until recently, seemed likely to countenance. Telecom, the monopoly domestic carrier, is to be merged with OTC, the international carrier, to form a single state-owned company with 86,000 employees – dubbed "Monstercom" by Mr John Hewson, the opposition leader.

Meanwhile Aussat, the government's debt-ridden satellite company, is to be sold to the private sector and turned into a competitor for Telecom. With just 300 employees, Aussat's new owner – probably a foreign company – faces spending A$1.2bn-1.4bn up to the end of the century to develop its new role.

The plan, masterminded by Mr Kim Beazley, the Communications Minister, maintains a strong publicly-owned telecommunications company and fulfils the telecom unions' long-held ambitions for an OTC/Telecom merger.

But the government's "economic rationalists", especially Mr Paul Keating, the Treasurer, have scored an important victory in winning a definite end to the new duopoly from June 30, 1997, after which there will be no limit on network competition. And even while the duopoly is in force, further competitors will be encouraged to enter markets other than the basic network.

Along with stringent rules on interconnection to ensure that Telecom/OTC cannot strangle its new competitor at birth, these conditions are seen as vital to the development of real competition in the telecommunications market.

Professor Henry Ergas of Victoria's Monash University, a world expert on the telecommunications industry, believes the rules have "somewhat amended" the creation of a duopoly that seemed likely to make the prospects of competition even dimmer. "It was not clear what incentive Aussat would have to go into a price war with a much stronger competitor," he says.

Mr Beazley believes the reforms will usher in a cheaper and better phone service for Australians, and Prof Ergas agrees they could produce a fall in STD prices on trunk routes of as much as 40 per cent.

Achieving this will depend on a big rise in productivity, and significant job cuts at Telecom/OTC are likely. Research by Prof Ergas shows that Telecom's charges are relatively high for OECD countries, and its rate of return among the lowest. Labour productivity levels are lower only in Portugal, Ireland and Turkey.

The influence of OTC should also prove positive. The international carrier, which has about 2,000 employees, has a high rate of return on assets in spite of charges that are among the world's lowest. It has also been quite successful in developing export service deals with other carriers, an area where the government is keen to see the merged company expand.

Aussat, whose new owner is unlikely to be decided until next year, will be starting in competition to Telecom/OTC virtually on a greenfield basis. Prof Ergas says he would expect it to concentrate on the cellular market, international services, the domestic trunk STD routes and a broad range of intelligent network services to businesses. Here Telecom has lagged behind its counterparts overseas, but has recently been "lifting its game".

In spite of certain uniquely characteristics – on unionisation at Telecom/OTC, for example – Mr Beazley's reforms are far-reaching in the local context and in comparison with telecoms deregulation elsewhere. But their implementation will have to be handled carefully to ensure that Mr Hawke's forecast of "potentially limitless" benefits is fulfilled.

Andrew Baxter

BANKING

A season for rationalisation

ANZ Bank headquarters: market share is now 16 per cent

IN SPITE of their worst earnings year for nearly a decade, Australia's leading banks have further consolidated their share of an overcrowded and largely unprofitable lending market in 1990.

The "big four" banks – the Commonwealth, Westpac, the ANZ and the National Australia – continued to drive a rapid rationalisation process as the smaller banks, especially foreign operators, generally reduced their exposure.

Several significant takeovers raised the big four's share of the country's total banking assets from 66.5 per cent to around 75.5 per cent. The biggest single increase came from a takeover still in progress, the Commonwealth Bank's $A1.6bn takeover of the State Bank of Victoria (SBV).

This was easily the most significant financial services transaction for the year on a number of counts. It's size made it the country's biggest takeover for 1990 in any industry, and it re-established the Commonwealth as the country's largest bank, lifting its national market share from 18 to 26 per cent.

But even greater importance lay in the implications for future banking and economic policy. The deal cast the die for further state bank takeovers by the leaders, with the State Bank of New South Wales and the Perth-based R&I Bank the next most likely candidates.

The SBV takeover was also the catalyst for a historic move by the Federal Government to partially privatise the Commonwealth Bank. The government plans to offer a 30 per cent stake in the Commonwealth to private investors in what will probably prove to be the country's single biggest private equity capital-raising.

The other significant banking takeovers during the year came from the ANZ, which acquired the National Mutual Royal Bank (NMRB) and the Perth-based Town and Country Building Society, lifting its national market share from 13 to 16 per cent.

The acquisition of the NMRB, formerly a joint venture between the National Mutual Life group and the Royal Bank of Canada, was a sort of second prize for the ANZ.

The takeover was only sanctioned after the ANZ had proposed easily the most innovative financial deal of the year, a $A3.4bn merger with the National Mutual, the country's second biggest life insurance group after the AMP Society.

The plan posed thorny policy issues for the Federal Government, not the least being increased domination of the financial sector and the regulatory framework for controlling what would have been a hybrid financial services group.

In the event, the proposal was blocked by the Federal Treasurer, Mr Paul Keating, on market domination grounds, but many believe further banking mergers, and "cross-border" insurance deals are likely.

A panicky local climate among investors has already caused minor runs on a couple of smaller banks, notably the Bank of Melbourne and Brisbane-based Metway Bank. A natural government desire to ensure stability in the financial system may soften the Keating stance against further bank ownership concentration.

The banking takeovers of 1990 emphasised that, even with their earnings squeezed badly by write-offs from a string of high-profile corporate collapses, the big four banks retain ample capacity to swallow their smaller brethren.

Indeed, the leaders' bad-debt problems probably dictate further takeovers this decade as they strive to improve their loan quality and remain within tightening central bank prudential requirements.

The September year bank reporting season brought most of the chickens home to roost from more than half a decade of largely imprudent bank lending to acquisitive share market operators.

Bad and doubtful debt write-offs of the big four banks ballooned close to $A3bn and at last balance date, the banks were carrying more than $A10bn in problem loans on their books.

In spite of accounting treatment which might suggest otherwise, banking earnings have been under pressure for the past three years.

One public indication of this came in the latest Institutional Investor/Prudential Bache survey of global bank profitability. The three largest banks ranked in the top 15 in the survey in 1988, but this year only two made it into the top 30.

Leading stockbroker, J B Were, adds some perspective to this figure, pointing out that the Australian banking sector's $A330bn in total assets make it relatively insignificant on a world comparison. That total asset value is roughly equal to just one of the leading US banks.

"Clearly the Australian banking industry has gone through a two- to three-year period of reducing asset quality, pressures on loan margins, higher provisioning for loan losses, and no significant slowdown in operating costs," Were said in a recent banking review. "Future asset quality will depend largely on the state of domestic property markets, as up to 85 per cent of non-accrual loans are secured against property. Loan margin pressures are easing as interests rates have fallen. However, these will be maintained under some pressure as non-interest bearing deposit balances continue to reduce, competition for retail deposits intensifies and non-accrual balances continue to increase."

Another leading bank analyst, Barclays de Zoete Wedd (BZW), believes the big four's expansion thrust may switch overseas in coming years, largely because opportunities in Australia are limited.

Two of the leaders already have large UK exposure – the ANZ through ownership of Grindlays and the National through Yorkshire Bank – and BZW analysts believe US targets may offer better value.

The analysts say listed US bank values have dropped about 40 per cent in the past year amid the S&L crisis and a spate of highly leveraged transactions. BZW nominates Westpac as the Australian bank most likely to pursue a US acquisition because it already has the largest exposure to that market, with about $A5bn in loans outstanding.

But Westpac also holds the strongest portfolio position among the smaller Australian banks, controlling about 10 per cent each of Advance Bank, the Bank of Melbourne and Challenge Bank.

Bruce Jacques

Bruce Jacques on reforms in the wake of corporate collapses

Surfeit of scandals

THE recent history of corporate regulation in Australia invokes comparisons with another time and place – when Nero fiddled while Rome burned.

Australian business has never smelled so bad internationally, with a string of the former corporate pace-setters, such as Alan Bond, Christopher Skase and Abe Goldberg, now considered investors' poison.

Corporate collapses in the past 18 months are estimated to have cost equity investors at least $A5bn, with creditors anxiously awaiting the fate of twice as much again in loans.

Yet more than three years after the 1987 crash which started the highly-geared corporate dominoes falling, Australia still lacks a fully operational national regulatory body.

A debilitating battle over control of corporate regulation between the Federal and state governments has delayed the establishment of a powerful, new national business watchdog – the Australian Securities Commission (ASC) – until January 1991.

In spite of a local community baying for blood, and clear "untouchable" status for Australian companies with many international investors, the authorities have shown the country's Federal political system at its worst.

Governments have ultimately wasted millions of dollars of money, and as many words, haggling over whether corporate regulation should be nationally or state run.

The process has left the ASC legally non-existent until next year and forced corporate regulation to be carried on through the under-funded National Companies and Securities Commission (NCSC).

The process has made jaundiced investors even more cynical, and continued to damage business confidence just when strong punitive action against corporate miscreants was desperately needed.

But towards the end of 1990, the delays appear to be over and the chances are growing that some of the country's worst corporate offenders will be brought to justice.

The most powerful assistance came from the Federal Government which voted the ASC an unprecedented $A107m in this year's Budget. That compared with a previous budget for NCSC of a mere $A8m, although state-run regulatory bodies were separately funded.

Welcoming the new Budget, ASC chairman, Tony Hartnell, gave a clear indication of where the bulk of it would be spent. "The ASC is budgeting on substantial litigation costs," he said.

"The current system of law enforcement has shown itself to be inadequate. The ASC wishes to play its part in restoring Australia's reputation with a resolute effort. We must be seen to be strongly enforcing the law apparently abused with such recklessness over the past few years."

Australian business has never smelled so bad internationally

Mr Hartnell recently backed his words by announcing a "hit list" of 16 companies to be investigated, including Bond Corp, Rothwells, Hooker, Estate Mortgage and Spedley.

Mr Hartnell's pledge to enforce the law sets his regime apart from that of his predecessor at the NCSC, Henry Bosch, whose lack of funds forced him into a cat-and-mouse game with miscreants, often aimed at forcing commercial solutions. This had Mr Bosch accused of being manipulative and using trial by media, but it did produce results which might not have been obtainable through the courts. One prominent example was forcing Alan Bond to bid for the Bell companies, formerly controlled by the late Robert Holmes à Court.

Mr Hartnell is expected to make fuller use of the courts, prompting concerns that corporate policing will turn into long and expensive battles, largely enriching the legal profession at the expense of investors and taxpayers.

Mr Hartnell's ascendancy has intensified the Australian debate on the issue of business regulation, drawing activity from business lobby groups.

Organisations such as the Business Council of Australia, the Australian Institute of Company Directors, the Institute of Chartered Accountants and the Australian Stock Exchange have focused on how to "clean up" the country's business image.

They rightly point out that it is one thing to prosecute now, but that will not bring investors' money back. The real challenge is to create a system that will withstand the rigours of the next share market boom.

One of the more eloquent spokesmen on the issue is also one of the worst affected by the excesses, Gavin Campbell, managing director of the Australian Stock Exchange (ASX).

The ASX is probably running a close second on investors' blame lists, after the legislators, probably then followed by the accountants whose "true and fair" seals on many dubious sets of accounts have proved highly misleading.

Mr Campbell questions whether black letter law, and attempts to heavily enforce it through the courts, will ever meet with much success in Australia.

"If high integrity and an efficient companies and securities environment was determined solely by the number of applicable laws, we in Australia would have no need for concern," Campbell said.

"Indeed, in the new Corporations Act package, there are no fewer than 1,520 sections. Unfortunately, neither corporate nor individual behaviour is governed by the number of laws alone.

"Many years ago, my wife's great-great-grandfather went bankrupt in Australia. But about 20 years afterwards, he held a dinner in London for all the creditors who had lost money, and under each plate was a cheque for the amount owed plus interest.

"Such behaviour is rarely heard of today, but at the time, there were very powerful social sanctions."

But Mr Campbell suggests that this sort of morality is not likely to return. "Governments cannot legislate away market risk," he says. "Nor do I believe it is possible to legislate for honesty any more than for a successful marriage."

Mr Campbell has certainly been at the sharp end of investor disenchantment, especially on the international front. Since the 1987 crash, the Australian market has gradually lost its attraction as a place to trade local shares.

More than 40 per cent of the trade in Australian shares is now transacted on overseas markets. The result has been a fall in average daily turnover value of about 20 per cent from the 1988 peak and a similar fall in market capitalisation.

STOCK EXCHANGE

Slimming programme

THE pincer effect of a sick local investment climate and the advent of a competitive international securities era is squeezing Australian stock markets as they enter the last decade of the century.

The resultant tough conditions are proving all the harder to handle with the industry still on a slimming programme to trim the excesses of the 1980s' share boom.

That saw a stream of big international financial institutions claw their way into Australian stockbroking, mouthing vague claims of "synergy" with mainstream financial services operations.

But, with average daily turnovers more than 20 per cent below mid-1980s' peaks and more than 40 per cent of Australian share trades "leaking" to overseas bourses, the inevitable has happened. Many of the interlopers have retreated, taking some of the most established local names with them.

Their legacy is financial wounds, comparative wisdom and a rationalised securities industry. Yet, even with 10 broking firms closing their doors in the past year, 95 firms remain members of the Australian Stock Exchange (ASX), chasing daily business that often falls well below the estimated $A200m minimum for a break-even industry.

This has forced some innovative strategies on the brokers, notably an accelerated broadening of their base outside traditional areas, and a much greater willingness to indulge in high-risk principal trading.

Most of the large brokers now style themselves as investment banks and some have moved into the mainstream investment advice area which traditionally advises investors on anything but equities.

The Deutsche Bank-controlled Bain & Co is among the most prominent example of operational spread, with its investment advice and leasing businesses probably outweighing its traditional securities activities.

And the Barclays Bank-controlled BZW is a prime example of commitment to principal trading. While most large brokers routinely trade as principal for a good part of their business – up to half daily turnovers are often estimated to involve principal trading – BZW has been the first to systematically establish the London practice of jobbing.

BZW has been the leading market maker in top stocks, but the group's strength as a principal trader was best highlighted this year when it put through the country's largest-ever principal deal – a $A525m placement of shares in Woodside Petroleum for Australia's largest company, BHP.

Sydney-based BZW's ability to grab the deal from under the noses of BHP's traditional Melbourne brokers reflected its principal trading reputation and a sound international distribution capability.

Most of the large brokers now style themselves as investment banks

The deal also capped a string of recent principal trades including the placement of $A332m worth of shares in Goodman Fielder Wattie, the Australian food group, for British rival, Rank Hovis McDougall, and a $A181m parcel in petroleum group Santos for the troubled Elders Resources NZFP combine.

Apart from sliding daily turnovers, another indication of the depressed climate in the securities industry is a steady decline in equity raisings. ASX figures show a rapid decline in equity raised from just over $A16bn in 1987 to barely $A9bn in the latest year, the lowest figure since 1986.

Raisings for new floats fell 28 per cent in 1990 to just over $A1bn and new listings on the exchange more than halved to a meagre 35 companies, just one eighth of the 1987 total.

But Australian corporates have found an effective new source of funds to tide them over this tight period. The second biggest source of equity capital in 1990 was dividend reinvestment programs (DRP).

ASX figures show DRPs accounted for more than $A2.6bn or nearly 30 per cent of capital raising, and were just shaded by traditional rights issues. DRP flows have risen from negligible levels of less than 3 per cent of total raisings a decade ago and now operate as quasi equity issues for leading companies, while giving shareholders some tax benefits.

The root cause of most of the pain in the Australian securities industry has been the poor performance of the stock market, in line with most world bourses. After a brief rally early in 1990, which took the leading indicator, the all ordinaries index, close to the 1,700 mark, it had fallen back around the 1,300 level by early December, more than 30 per cent below its 1987 peak.

These conditions traditionally make it hard for brokers to attract business, and the difficulty in Australia has been compounded by a tax regime which still imposes stamp duty on share transactions.

ASX chairman, Mr Laurence Cox, sees this as a significant reason for the leakage of business to overseas exchanges where dealing is cheaper and the authorities are actively encouraging Australian companies to list.

Mr Cox says the ASX is campaigning to have the duty removed. Meanwhile, it has put substantial expenditure into computerised trading and settlement systems designed to make dealing in the Australian market faster and cheaper.

The first year of the 1990s was a watershed for the industry, with abolition of the trading floor, in favour of an all-computer screen trading arrangement known as SEATS. And in settlement, which has long been a paper-clogged competitive problem for Australian exchanges, the ASX has launched a computerised system known as FAST.

But the ASX's best hope for a short term business boost probably now rests with a new wave sweeping the Australian business scene – privatisation. But signs are that things will move quickly. The Federal Government is already committed to partially or fully privatising the Commonwealth Bank, and the two airlines, Qantas and Australian. Some broker estimates suggest more than $A10bn billion worth of government assets could be sold in the next half decade, much of it offered through the ASX.

Bruce Jacques

Big mines use their muscle to keep market domination

Decade of growth pays off

A $A3bn stream of expansion projects in 1990 has put Australia in a position to maintain its dominant position in world mining exports into the 21st century.

After consolidating through the near depression conditions of the mid-1980s, the mining industry is now increasingly using its strong cash flows to boost capacity, aiming for classic incremental expansion at marginal cost.

Significant mining expenditure is risky at any time, given the vagaries of world markets, but all the more so now because of the uncertainties posed by the Gulf crisis.

But the bulk of the envisaged expenditure takes partial account of these risks, being earmarked largely for expansion of existing operations, and

The industry is using its strong cash flows to boost capacity

even some replacement of less economic capacity.

But, underlying the resource richness of the country, there is also a sprinkling of greenfield projects, some of them bringing on world-ranking new resources.

The backbone of this expenditure is a solid earnings performance which has distinguished the mining sector, one of the few Australian industries still investing as the economy heads into recession.

Pre-tax earnings of the 23 mining groups in Australia's top 500 companies in the latest June year rose rose more than 15 per cent to $A470m. Their sales margins improved close to a healthy 20 per cent, in line with solid world prices for most commodities.

And that performance was more than matched by the coal sector, where the top four companies more than quadrupled their pre-tax earnings, almost tripling their sales margins.

That helped the mineral sector comfortably to maintain its place as the nation's biggest exporter, a role made more important by the country's chronic trade deficit problems.

In 1989-90, Australia's mineral exports rose 7 per cent to $A21.4bn, about half the national total. This year, the Australian Bureau of Agricultural and Resource Economics is forecasting a further 11 per cent growth to $A26.5bn.

All but two of Australia's main export minerals showed rising production in 1989-90, with total mining output rising by 63 per cent in the past half-decade.

Gold up 25 per cent, nickel up 16 per cent, coal ahead 13 per cent, and nickel and zinc both up 12 per cent, showed the best output increases over the past year and are all commodities where Australia accounts for a significant proportion of world exports.

Aluminium output was down by 3 per cent, after growing by 14 per cent in each of the previous three years, and uranium output was static under restrictive Federal Government policies.

But the industry's vulnerability to world trends can be seen from the fact that these output rises are the sole reason for its healthy revenue.

Prices for most commodities fell in the latest year, as recession hit major consumer countries and price rises in the late 1980's encouraged new production to come into the market.

The industry is doubly at risk in pushing on with a major expansion programme under these conditions, but much of the expenditure involves projects that should lower Australia's position on the world cost curve.

CRA, the country's most profitable miner, is one of the leaders of the expansion push, with plans for two separate projects at its Pilbara iron ore mines, two gold mines in Indonesia and Papua New Guinea and a new open cut coal mine at Vickery in New South Wales.

The company's Comalco subsidiary is also undertaking a joint feasibility study with the Alcan group on a possible $A1bn alumina plant in Queensland.

Another leading miner, MIM Holdings, fresh from a $A135m expansion of its Oaky Creek coal mine in Queensland, is also considering expenditure of $A200m on the rich McArthur River base metals deposit in the Northern Territory.

And MIM is scaling up its new $A400m Hilton base metals mine to production levels that would exceed its world-ranking Mt Isa mining complex.

Western Mining Corporation, meanwhile, is looking at a $A300m upgrade of its Kambalda nickel operations. And also in nickel, the emerging Australian miner, ACM Ltd., has been joined by the Finnish-based Outokumpu group, for a $A450m development of the Mt Ketih prospect in Western Australia, regarded as probably the world's best untapped nickel resource.

At least seven new coal mines are firmly planned, including Vickery, which could bring a further 20m tonnes of coal to the market by 1993. With incremental expansions, this could lift Australian coal output by about 30m tonnes, raising questions about market capacity.

Coal is already Australia's biggest single export earner, with shipments of just over 100m tonnes in 1989-90 bringing in about $A5.8bn, but it is likely that economic reality will stall at least some of the planned new ventures.

Probably the biggest black spot in the 1990 Australian mining outlook is the continued mothballing of the CRA-controlled Bougainville gold-copper mine in Papua New Guinea following severe civil unrest.

CRA subsidiary, Bougainville Copper, withdrew all staff by March this year, and although directors are continuing to account for the mine as a going concern, they have provided more than $A30m against its value.

Bougainville's problems, and the clear failure of central Papua New Guinea government to guarantee safe working conditions at the mine, have brought into question all further resource investment in the country. However, MIM and Placer Pacific are successfully continuing with the Porgera gold mine in the country and the civil problems have so far largely been confined to Bougainville Island.

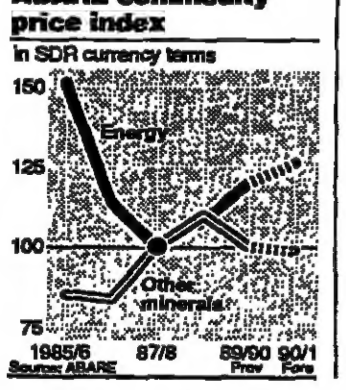
In the Australian petroleum sector, the most significant event of the year was the beginning of the Liquified Natural Gas phase of the North West Shelf project, the country's largest-ever resource venture.

Shipment of the first LNG cargo in July capped more than 10 years of development work and underlined Australia's strong comparative energy position amid the Gulf crisis era.

Bruce Jacques

ABARE commodity price index

In SDR currency terms



Aluminium ingots: output down by 3 per cent

Ashley Ashwood

Australia accounts for about 60 per cent of the world's raw wool exports

Times are tough in rural areas, reports Andrew Baxter

Trouble down on the farm

THE scene: a farming village in deepest Queensland. A smartly-suited local politician is haranguing a small crowd of curious onlookers. The Federal government in Canberra, he tells them, is "a great fat blob, which won't move unless it is prodded".

This modern-day bucolic is being replayed throughout rural Australia this year, and is intended to give the Federal government and urban dwellers a sense of the importance of agriculture to the country's economy – and the plight of many of those who own, and work on, its 160,000 farms.

For all the rural representative's indignation, Canberra is painfully aware of the farm sector's troubles. Agricultural products account for just 4 per cent of Australia's gross domestic product, but represented 26 per cent of total export earnings last year, the second biggest factor after mineral resources.

However, the value of rural exports this year is forecast to fall significantly from A$15.1bn in 1989/90. The present official forecast is A$14.6bn, but Dr Brian Fisher, director of the Australian Bureau of Agricultural and Resource Economics, warns this is likely to be further revised downwards.

There are a number of specific reasons for the problem, but the most important negative factor is the "corrupted world market" for Australia's farm produce caused by European Community and US subsidies to farmers. In addition, the threat of world recession, political instability in key export markets, changing consumer habits, even the Gulf crisis – which has compounded problems over live sheep exports to the region – are conspiring to produce a cocktail that may yet prove lethal for some farming livelihoods.

Dr Fisher forecasts that average cash income this year on broadacre farms – which excludes sugar, cotton and horticulture – is likely to plummet from A$52,000 in 1989/90 to just A$25,000. At present there are no hard figures on bankruptcies in the industry, but time lags in the system suggest the full effects will hit the most financially-exposed farms from early next year.

Farming has always been a volatile business in Australia, and suffers from a climatic and financial instability completely foreign to the industry in Europe, according to Dr Fisher. Soil quality is poor, and it is

Farming has always been a volatile business in Australia

not uncommon in some areas for farmers to expect just two good crops in five, and one complete failure.

Additionally, the industry is largely at the mercy of international price movements. Even in wool, where Australia accounts for about 60 per cent of the world's raw wool exports, it has limited ability to influence market prices, because wool represents only 4 per cent of world trade in fibres.

But despite these structural disadvantages, Australian agriculture is among the world's most efficient and, over the past 10 years, productivity growth has been about 50 per cent higher than in manufacturing industry. This reflects the high average size of farms, continued investment in agricultural research, and the government's generally non-protectionist stance.

Mr John Kerin, minister for primary industries and from a farming family himself, has taken the view that in present circumstances there is little point in concealing the truth. "For many people in rural Australia, times are tough. It may well be that, for some, things will get worse before they get better," he says.

However, Canberra remains convinced that, except in the most exceptional circumstances, the long-term health of the agriculture sector is tied closely to the continuation of a non-protectionist stance. That approach, in turn, is an important weapon used by Australia in talks within the Uruguay Round of the General Agreement on Tariffs and Trade.

Not surprisingly, therefore, the fact that the government has just given its blessing to a quota system to cut wool production by about 25 per cent is cause for some embarrassment. "The industry has been the doyen of free marketing, and has had trouble accepting the need for these measures," says Mr Jamie Hoadley, executive director of the Wool Council of Australia, the main wool producers' body. "I think the government is in the same boat."

Ironically, wool producers have probably fared better than other agricultural sectors on a historic basis, despite specific setbacks such as the 1982 drought. Prices rose sharply in the late 1980s, and wool's contribution to total broadacre receipts increased from 18 per cent in 1979/80 to 35 per cent last year.

Now, however, there has been a backlash against record high prices which became unsustainable as production levels were pushed up, and as China, the Soviet Union and Eastern Europe virtually withdrew from buying. Earlier this year, there were howls of protest from the industry when the government ordered the floor price – at which the Australian Wool Corporation buys in wool that producers cannot sell – from 870 cents a kilogramme to 700. Mr Hoadley remarks that, contrary to the government's expectations, this depressed short-term demand even if in the long-term the economics of the decision were right.

Rather than see the floor price scheme fall apart completely wool producers have now grudgingly accepted a quota system which should broadly peg back production in line with exports of around 750,000 tonnes a year. But farmers face very heavy increases in the tax they pay to support the Corporation's buying programme.

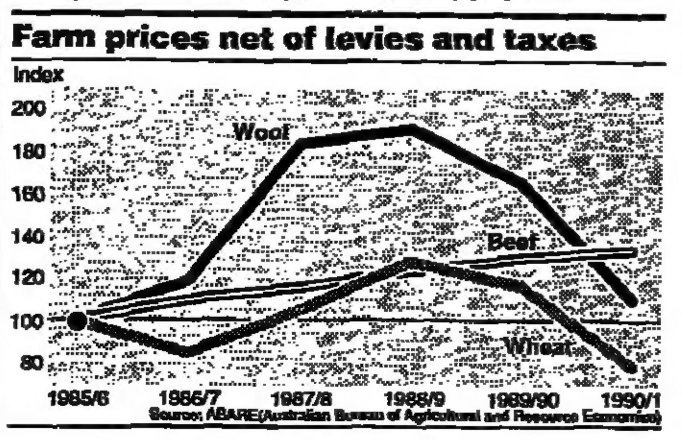
In normal circumstances, wool producers would by now have been diversifying heavily into wheat, Australia's biggest grain commodity by far. But record crops in the northern hemisphere, along with EC and US subsidies which Mr Kerin says are "cutting the guts out of the world wheat markets", have brought price falls of about one-third this year for Australian growers.

There are some brighter spots. Dr Fisher thinks prospects for beef producers are pretty good, underpinned by liberalisation of the Korean and Japanese markets, and cotton producers are making hay while world stocks remain low. Unfortunately this is one of Australia's smallest agricultural sectors.

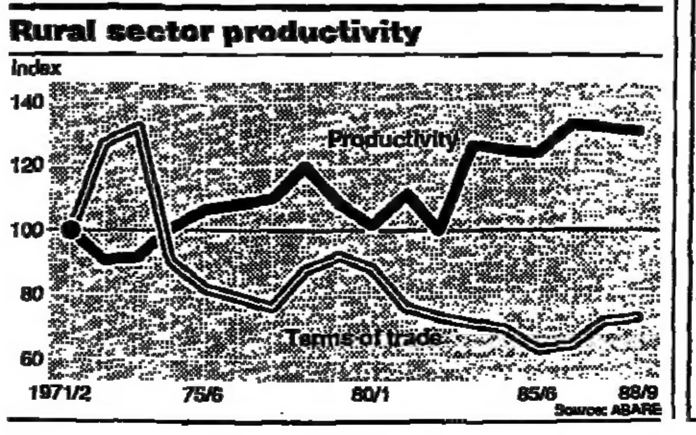
By generally rejecting the anathema of protectionism, Australia's farmers can only hope for indirect government help through a better macro-economic environment – lower interest rates and a weaker dollar to stimulate exports – and a victory for Australia and its allies in Gatt.

They know it would be unwise to expect too much on either count. But Mr Kerin is right to remark that "downturns, even very deep ones, come and go," and rural Australia ought to be able to recover from its present malaise, if not quite as smartly as it has done in the past.

Farm prices net of levies and taxes



Rural sector productivity



The green cost of development

In search of a middle way

IT MIGHT seem odd that Australia can produce environmental battles every bit as passionate as those in countries with much tighter pressure on space, dirtier water and heavier air pollution.

But it is precisely because Australia is so well-endowed with natural features whose preservation merits world wide interest, and yet remains so heavily reliant on basic resources, that "green" issues are politically controversial and economically a central question for Australia in the 1990s.

Apart from the economy, the environment was the only big national issue in the March elections which gave the Labor Party a record fourth term in power. Labor courted the green vote assiduously, and many believe that backing from environmentalist groups helped tip the balance in its favour.

But in the months since the election, as parts of Australia have fallen into recession, there has been a subtle shift of emphasis within the government, leading to speculation that Federal economics ministers are winning a private battle in Cabinet with their environment counterparts. In policy terms, the underlying development is a growing realisation within the government of the interdependence between economic growth and conservation.

Surprisingly, perhaps, concern for the environment is not a new issue in Australia. Mr Phillip Toyne, executive director of the Australian Conservation Foundation, quotes approvingly from A.R. Wallis, a Victorian agricultural expert, who wrote in 1873 of Australia's "uniform system of reckless land spoilation – the exhaustive system of farming".

Nearly 120 years later, land degradation is widely seen as one of Australia's biggest environmental problems. As such, it illustrates the mainly land-based emphasis of the environmental debate in Australia – differentiating it from countries where air pollution and the consequent deterioration of the ozone layer are the primary issues.

As Mrs Ros Kelly, Environment Minister, noted recently, it is appropriate to refer to "landmark issues" when looking back on the great individual flashpoints of the past 20 years.

Some of these battles, such as those against the proposed damming of the Franklin River in Tasmania, represent the pinnacles of achievement for the environmental movement. Due partly to articulate public spokesmen such as Mr Toyne, the "greenies" have strongly influenced the agenda for political discussion of the environment and its relationship with resource exploitation.

The result is that green buzzwords such as "biodiversity" – the maintenance of large numbers of biological species – fall readily from the lips of politicians, whatever their political affiliations. "All the evidence suggests we have a high rate of species loss, and that is not a good thing economically," says Mr Frederick Chaney, opposition spokesman on the environment. "We should not be cavalier about a loss of genetic material."

More measurable in financial terms was the abandonment or postponement last year of a number of export-oriented development projects. The most sensitive was mining at Coronation Hill, adjacent to the Kakadu National Park, which contains a world-class deposit of gold, platinum and palladium. And in Tasmania the A$1bn Wesley Vale pulp mill project fell victim to concerns over likely chemical effluent. It is a sign of the times that an alternative plan is now under discussion.

Over the past few years the Federal government and the states have maintained a crude balance between conservation and development by taking a case-by-case approach that was often based on nothing more than a line drawn on a map. This has given the environmental debate an all-or-nothing, "win/lose" character that has prompted confrontation between environmentalists and red-necked lumbermen and deep uncertainty among resource-exploiting companies.

Canberra now wishes to change all this by substituting management for confrontation. The conceptual basis for the new approach is "ecologically sustainable development," (ESD) as enshrined in the 1987 Brundtland Commission report on world environment and development problems.

A Federal discussion paper on ESD, issued in June, says the key task for implementing the process is to establish "mechanisms that ensure an integration of economic and environmental considerations both now and in the future. Reaching that integration can only be a co-operative process."

The government has now set up nine sectoral working groups to discuss over the next year what ESD means for industries such as forestry, mining and transportation. The groups will include representatives from industry, state and Federal governments, and some of the conservation movements including the ACF and Greenpeace.

A key aim is to give companies "resource security," allowing them to plan with greater confidence. In mining, for example, the committee is

Concern for the environment is not a new issue in Australia

likely to look at measures to provide "more secure and ongoing access for exploration and development of resources while still protecting and/or conserving areas of outstanding conservation value".

It is easy to characterise the ESD initiative and the working parties in particular as a typical government response to a thorny issue – talk as a substitute for decisions and action. Certainly the scheme on its own is no panacea. An important accompaniment will be moves towards a clearer division of responsibilities between the states and the Federal government on an issue which, as one government official observes, does not get a mention in Australia's constitution.

Mr Chaney says the Federal/state structure causes "genuine difficulties" for moving towards national standards on an issue like the environment. But a start was made last month when a special premiers' conference in Brisbane agreed to make a start on ending duplication of roles and introducing a more co-operative national approach.

Mr Chaney complains that the ESD initiative is flawed by the government's unwillingness to lay down an economic "bottom line". The government, he says, "should say that it is pro-growth, that it favours more resource development and more resource processing".

For its part the government stresses it does not have an apocalyptic view of future environment trends, and is emphatically opposed to the no-growth policy espoused by the more extreme environmentalists. It hopes that the ESD process will provide a balanced framework for discussion of individual developments, but it cannot expect argument over specific developments or policies to end overnight.

The government's controversial three-mine uranium policy, for example, seems likely to be maintained despite its inconsistencies, as it remains a political hot potato. On the other hand, Mr Toyne is worried about a number of recent "pre-emptive" decisions including the go-ahead for logging of sensitive areas on the coast of New South Wales.

The more vitriolic critics of the environment lobby are now gleefully claiming "victory" as the government sees the light and embraces development with open arms. This, however, belittles a process which, although embryonic, might eventually enable Australia to stop viewing such a vital issue in terms of "winners" and "losers".

Andrew Baxter